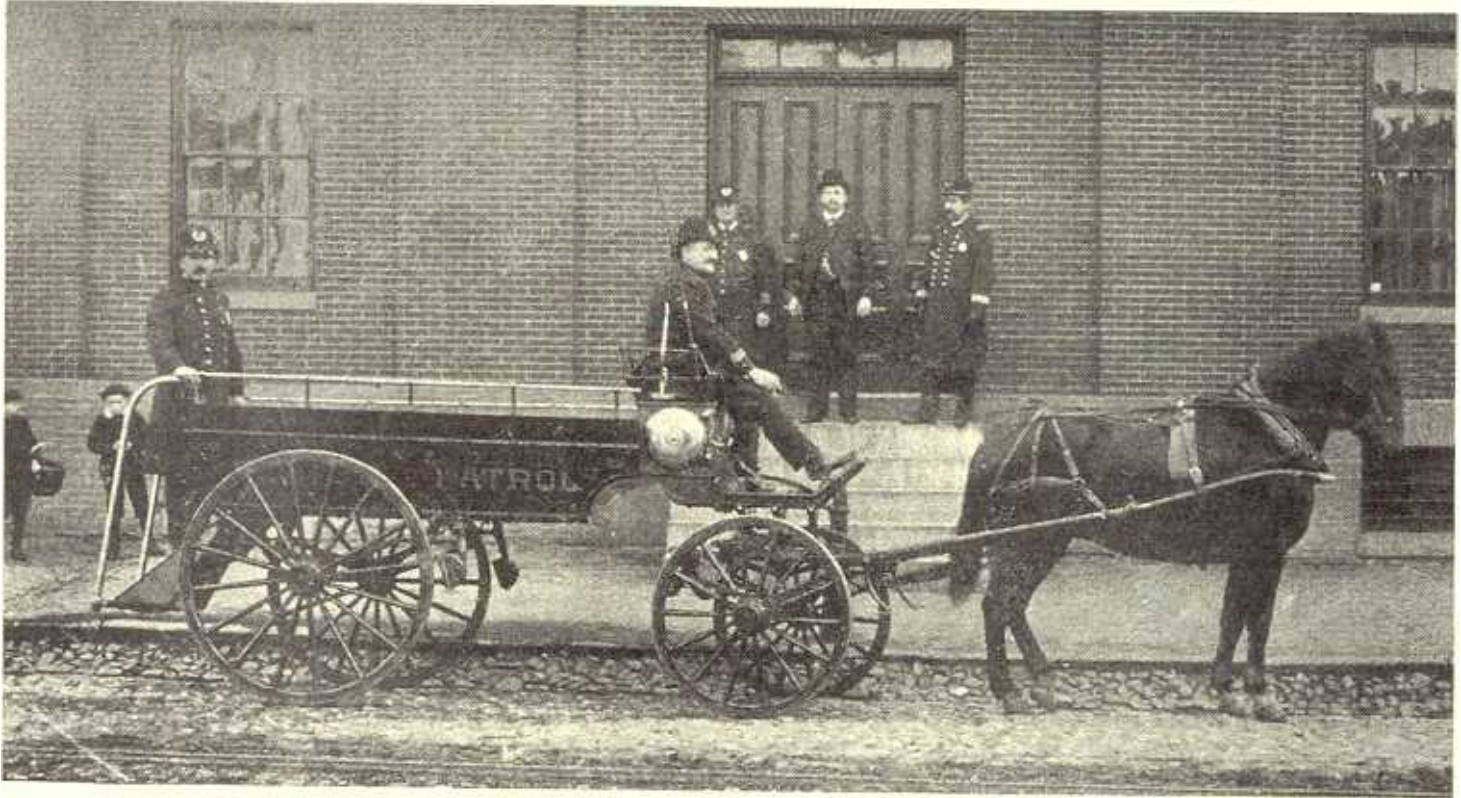


FIRE & POLICE
EMPLOYEES' RETIREMENT SYSTEM
City of Baltimore, Maryland



Comprehensive Annual Financial Report

A Component Unit of
the City of Baltimore, Maryland
Year Ended June 30, 2005

Prepared by:
Thomas P. Taneyhill, CPA
Executive Director
David A. Randall
Accounting Manager

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Comprehensive Annual Financial Report
For the Year Ended June 30, 2005
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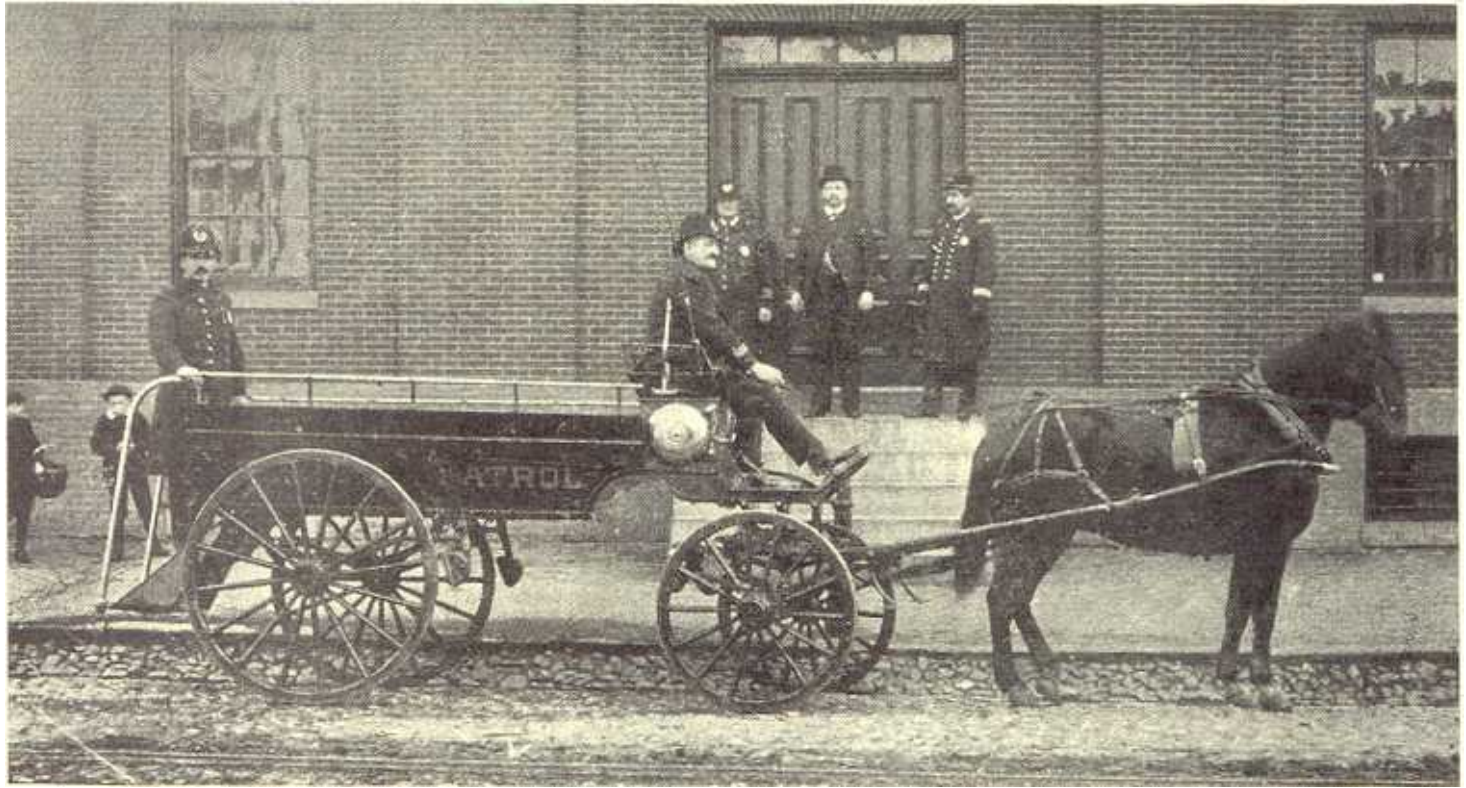
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ntroductory Section



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Fire and Police

Employees' Retirement System,

City of Baltimore, Maryland

For its Comprehensive Annual

Financial Report

for the Fiscal Year Ended

June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Nancy L. Ziehl

President

Jeffrey R. Enen

Executive Director

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM

THOMAS P. TANEYHILL, CPA, Executive Director
7 E. Redwood Street
19th Floor
Baltimore, Maryland 21202

December 14, 2005

**The Honorable Members of the Board of Trustees
Fire and Police Employees' Retirement System
Baltimore, Maryland**

The Fire and Police Employees' Retirement System of the City of Baltimore (F&P, Plan, System) has just completed its forty-third year of service to the uniformed officers of the Baltimore City Fire and Police Departments. On behalf of the dedicated staff that serves the System's membership, I am pleased to submit the Comprehensive Annual Financial Report of the F&P for the fiscal year ended June 30, 2005. The System's administration is responsible for both the accuracy of the data and the completeness of the presentation, including all disclosures. To the best of my knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the F&P. The F&P is a component unit of the City of Baltimore.

This report consists of five sections: the Introductory Section contains the Letter of Transmittal, the Chairman's Report, the identification of the Board of Trustees, the Organization Chart, and the identification of the professionals who provide services to the Board of Trustees; the Financial Section contains the Independent Auditor's Report, the Management's Discussion and Analysis, the financial statements of the System and certain required supplementary information; the Investment Section contains the Report on Investment Activity, Investment Objectives and Policies, Investment Results, various investment schedules, and a Schedule of Investment Professionals; the Actuarial Section contains the independent Actuary's Disclosure Certification, assumption tables, schedules of valuation data, and a Summary of Plan Provisions; the Statistical Section includes data pertaining to active and retired members of the System and benefit expenses.

Established July 1, 1962, by City ordinance, the F&P is a defined benefit plan that covers all uniformed officers of the Baltimore City Fire and Police Departments. The plan also covers certain Maryland Aviation Administration firefighter/paramedics and certain Maryland Transportation Authority police officers. These State of Maryland employees were grandfathered to F&P plan coverage by State law.

All System-related administrative and benefit provisions are established by City ordinance, as contained in Article 22 of the Baltimore City Code, and may be amended only by the Mayor and City Council. The plan provisions provide a contractual relationship for the membership, unless specifically excepted, whereby benefits may not be diminished or impaired in any way.

The F&P provides normal service retirement benefits for members who attain age fifty, regardless of service or who acquire twenty years of membership service, regardless of age. Employees who become members of the F&P on or after July 1, 2003 must have, in conjunction with the aforementioned, at least ten years of service as contributing F&P members. Coverage for line-of-duty disability benefits is immediate upon entry into the System. Disability benefits for non-duty-related injury or illness are provided after the attainment of five years of membership. Line-of-duty death benefits are provided upon membership for any member whose death results from an injury occurring in the actual performance of duty. After one year of System service, members are also covered for non-duty-related death benefits. Members who do not reach service retirement benefit eligibility remain vested in their accumulated member contributions and interest credits. A Deferred Retirement Option Plan (DROP) is available to members who have attained twenty or more years of service. More complete

information on DROP can be found in the Summary of Plan Provisions beginning on page 61

Major Initiatives

The Board of Trustees continued its aggressive schedule of conducting investment management firm searches to complement its strategic asset allocation plan. A search was completed for value added real estate fund managers as existing fund investments were nearing the end of their terms and to balance the weighting in core real estate investment funds. Searches were also conducted for two new allocations, one for a private equity fund of funds manager and the other for hedge fund of funds managers. In addition, the Board began analysis of the fixed income portfolio construction and examination of global and absolute return fixed income alternatives. The Board continued to diversify the F&P investment portfolio across various asset classes and sub-classes.

During fiscal year 2005, the plan provisions mandated that the System's actuary calculate the past and future costs of the Deferred Retirement Option Plan (DROP), which was established in July 1996. The purpose of the calculation, the "DROP Test," was to determine whether those costs exceeded the assets allocated to fund the DROP benefits, and, if so, the City of Baltimore could enact legislation to reduce or eliminate the costs of DROP, but only with respect to members who have not yet entered DROP. The "DROP Test" found that the costs did exceed the assets allocated to fund the benefit. The results were reported to the Mayor and Director of Finance. Alternatives to the existing DROP continue to be evaluated by the administration beyond the end of fiscal year 2005.

Efforts to relocate the F&P staff to new permanent offices continued throughout the year. In July 2004, the staff moved to temporary office space while awaiting the finalization of the construction bid process and selection of a contractor for permanent office quarters. Once the construction process began, staff attended regularly scheduled construction update meetings. The move to the permanent office location occurred after fiscal year end.

Financial Information

This report has been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board. The accrual basis of accounting is used to record assets and liabilities, revenues and expenses. Revenues are recorded when earned, regardless of the date of collection. Expenses are recorded when liabilities are incurred, regardless of when payment is made.

Generally accepted accounting principles require that management provide a narrative introduction, an overview, and an analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The F&P's MD&A can be found on page 17 immediately following the report of the independent auditor in the Financial Section of this report.

The System's administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the F&P are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and that the valuation of costs and benefits requires estimates and judgments by the System's administration.

Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and the fair presentation of the financial statements and supporting schedules.

Additions To Plan Net Assets

Income from investments and the collection of employer and member contributions provide the reserves needed to finance retirement benefits. On a relative basis, the F&P's investment portfolio performed very well by ranking in the third percentile of the Independent Consultant's Cooperative (ICC) public fund universe with a 12.1% total return for the year ended June 30, 2005. The System's fiscal year 2005 performance was led by the international equities portfolio with a 24.1% return, followed by the real estate portfolio with a return of 20.2%. Employer contributions increased 14.0% due to higher active member payroll and negative investment performance in prior years. Member contributions decreased slightly from fiscal year 2004 to fiscal year 2005 because in fiscal year 2004 the City Police Department members had more than the normal number of bi-weekly pays in that year. Member contributions are made each and every bi-weekly pay period.

	Fiscal Year 2005	Fiscal Year 2004	Increase (Decrease) Amount	Increase (Decrease) Percentage
Net investment income	\$218,687,126	\$222,720,518	\$(4,033,392)	(1.8)%
Employer contributions	48,666,701	42,699,166	5,967,535	14.0
Member contributions	<u>15,359,931</u>	<u>15,421,154</u>	<u>(61,223)</u>	(0.4)
Total	\$282,713,758	\$280,840,838	\$1,872,920	0.7%

Deductions From Plan Net Assets

The main purpose of a retirement system is to pay benefits. For the F&P, the cost of such benefits includes periodically paid retirement benefits, lump sum DROP distributions, refunds of accumulated contributions to terminated members, lump sum death benefits and the cost of administering the System.

	Fiscal Year 2005	Fiscal Year 2004	Increase (Decrease) Amount	Increase (Decrease) Percentage
Retirement benefits	\$136,570,935	\$127,436,253	\$ 9,134,682	7.2%
Lump sum DROP payments	22,253,341	24,494,758	(2,241,417)	(9.2)
Administrative expenses	2,143,390	1,905,163	238,227	12.5
Refund of member contributions	<u>1,403,449</u>	<u>1,093,504</u>	<u>309,945</u>	28.3
Total	\$162,371,115	\$154,929,678	\$7,441,437	4.8%

Fiscal Year 2005 retirement benefits increased due to the number of members who have retired and who attained Full DROP retirement benefit status. Retirement benefits also increased because of a 4.05% post-retirement increase that commenced in January 2005 to all eligible retirees and beneficiaries. Refunds of member contributions increased due to a 32.0% increase in the number of members who terminated covered employment from 103 in fiscal year 2004 to 136 in fiscal year 2005. Administrative expenses incurred during fiscal year 2005 increased due to higher personnel costs and the commencement of lease payments for office space.

Investments

As provided for in the plan provisions, the Board of Trustees is authorized to invest the System's assets and to take appropriate action regarding the investment, management, and custodianship of plan assets. The investment responsibilities of the Board include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives.

An investment authority known as the "prudent person rule" governs the Board's investment of System assets. The "prudent person rule" establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the fund. The "prudent person rule" states that fiduciaries shall discharge their duties solely in the interest of the plan participants and beneficiaries, and with the degree of diligence, care, and skill that prudent men and women would ordinarily exercise under similar circumstances in a like position.

The Board recognizes that the objective of a sound and prudent policy is to both produce investment results that will preserve the plan's assets and maximize the earnings of the System consistent with its long-term needs. Furthermore, through the diversification of plan assets over various investment classifications, the Board recognizes the need to maintain a balanced investment approach to not only maximize investment results, but to also reduce risk. For fiscal years 2005 and 2004, investments provided rates of return of 12.1% and 16.2%, respectively. The System earned annualized rates of return of 9.5% over the past three years and 2.4% over the last five years.

Plan Funding

A key measure of the health of a retirement system is the level of funding: The better the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liabilities and the greater the level of investment income potential. A better level of funding gives the participants a higher degree of assurance that their pension benefits are secure. The advantage of a well-funded plan is that assets are irrevocably committed to the payment of benefits. The Board's and the City's dedication to provide a financially sound retirement plan for its members is illustrated in the "Schedule of Funding Progress" found on page 30. This schedule compares the accrued liabilities, calculated according to the plan funding method, to the actuarial value of assets. This illustration presents the historical progress made by the F&P toward the funding of those liabilities. The "funded ratio" is an indication of the strength of the System. The F&P remains strong on an actuarial basis.

Independent Audit

The Baltimore City Code stipulates that the Board of Estimates shall select an independent auditor for the F&P and that the auditor shall report his findings annually to the Board of Estimates and to the Board of Trustees. The Board of Estimates elected to have the City Auditor render his opinion as to the fairness of the System's financial statements. The auditor's report is contained in the Financial Section of this report.

Professional Services

The Board of Trustees appoints consultants and investment managers subject to approval by the City's policy making and approval board, the Board of Estimates. These professionals have been chosen based on their ability to provide services that are essential to the effective and efficient operation of the System. All of the professionals who provide service to the Board of Trustees are listed in the Introductory Section on page 13 and in the Investment Section on pages 49 and 50.

December 14, 2005

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Fire and Police Employees' Retirement System, City of Baltimore, Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 2004. This was the twenty-second consecutive year (fiscal years 1983-2004) that the F&P has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe that this current report continues to meet the Certificate of Achievement Program requirements. I am submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments

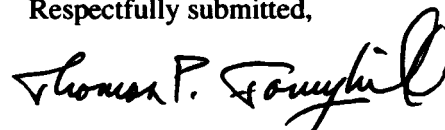
The preparation of this report could not be accomplished without the dedicated efforts of the System's Accounting staff. I would like to express my appreciation to all who assisted and contributed to its preparation.

This report is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members and the City of Baltimore.

This report is being forwarded to the Mayor, the Comptroller, the President of the City Council, and other members of the Board of Estimates, to all members of the City Council, and to the Fire and Police Departments so that all members of the F&P will have the opportunity to review it. Hopefully, the administration of the City and the membership of the System will find this report both informative and helpful.

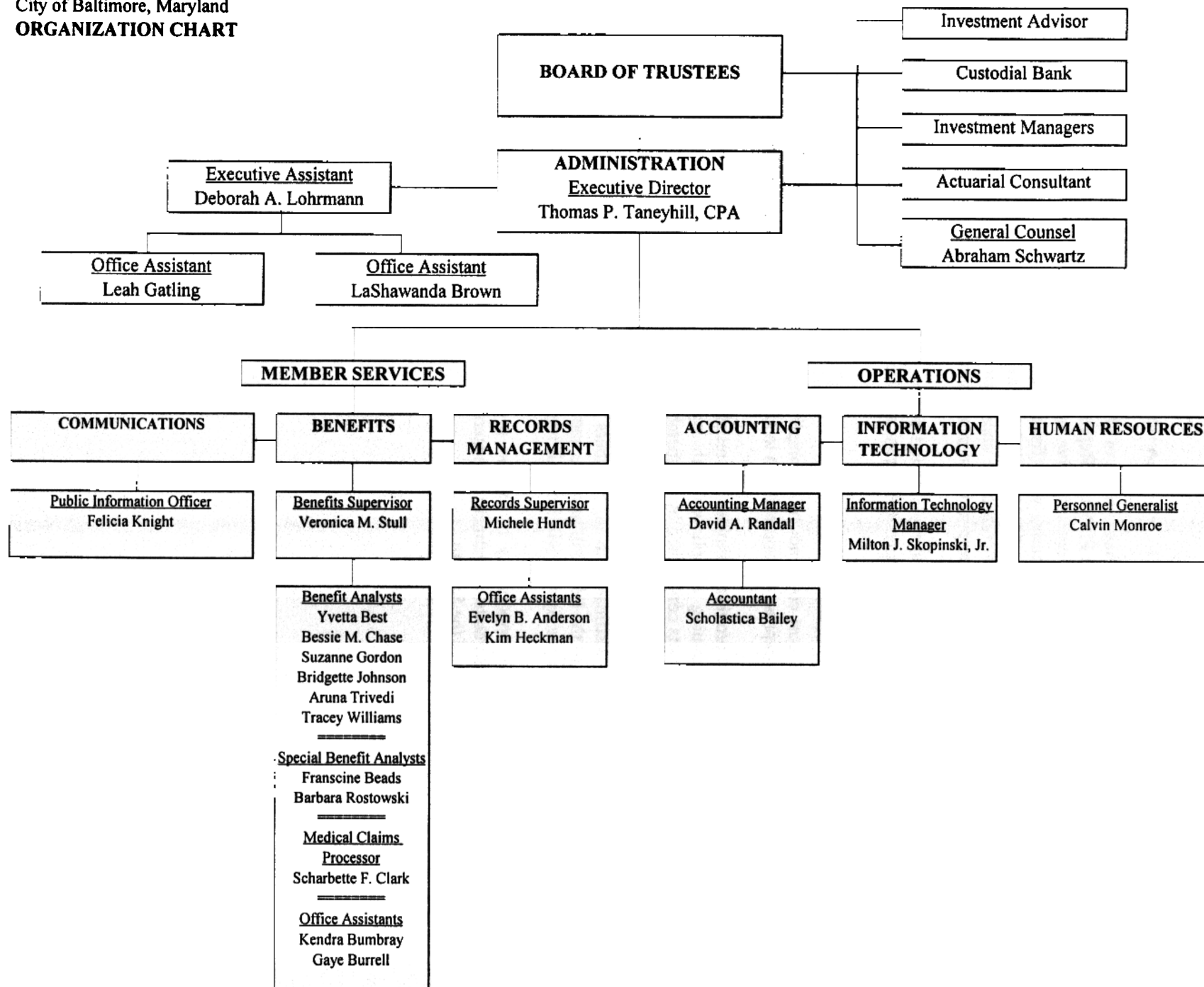
I would like to take this opportunity to express my gratitude to the Board of Trustees, the F&P's dedicated staff, the System's consultants, investment managers and advisors, all of whom have worked diligently to assure the successful operation of the System.

Respectfully submitted,



Thomas P. Taneyhill, CPA
Executive Director

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ORGANIZATION CHART



Fire and Police Employees' Retirement System
City of Baltimore, Maryland
BOARD OF TRUSTEES

Stephan G. Fugate, Chairman***
Fire Captain
Baltimore City Fire Department

Elected by active Fire Department members
Term expires June 30, 2006

Edward C. Heckrotte Sr., Vice-Chairman
Pump Operator, retired
Baltimore City Fire Department

Elected by retired Fire Department members
Term expires June 30, 2006

Corey D. Curbeam**
Deputy Chief
Baltimore City Fire Department

Ex-officio

Errol L. Dutton*
Deputy Commissioner
Baltimore City Police Department

Ex-officio

Steven E. Histon
Police Sergeant
Baltimore City Police Department

Elected by active Police Department members
Term expires June 30, 2008

Peter E. Keith, Esquire
Partner
Gallagher, Evelius & Jones, LLP
Baltimore, Maryland

Appointed by the Mayor
Term expires December 6, 2007

Joan M. Pratt, CPA***
Comptroller
City of Baltimore

Ex-officio

Robert W. Schaefer***
Executive Director
France-Merrick Foundation
Towson, Maryland

Appointed by the Mayor
Term expires December 6, 2007

Theodore I. Weintraub***
Major, retired
Baltimore City Police Department

Elected by retired Police Department members
Term expires June 30, 2008

Elected active and retired member Trustees serve four-year terms. Trustees appointed by the Mayor serve terms concurrent with the Mayor's term (normally a four-year term). Appointed trustees continue to serve until replaced by the Mayor, or until the expiration of two consecutive full terms. There are no term limits for elected trustees. The ex-officio members to the Board are the City Comptroller, the Police Commissioner and the Fire Chief. The Board Chairman and Vice-Chairman are elected by the members of the Board of Trustees.

*Deputy Commissioner Dutton was designated by Police Commissioner Leonard Hamm to be his representative on the Board.

**Deputy Chief Curbeam was designated by Fire Chief William Goodwin to be his representative on the Board.

***Denotes Investment Committee members who are elected to the committee by the members of the Board of Trustees.

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



FIRE AND POLICE EMPLOYEES' RETIREMENT SYSTEM

THOMAS P. TANEYHILL, CPA, Executive Director
7 E. Redwood Street
19th Floor
Baltimore, Maryland 21202

December 14, 2005

To All Members, Retirees, and Beneficiaries
Fire and Police Employees' Retirement System

The most recent fiscal year solidified our position as a top quartile fund in terms of investment performance when compared to our peers in what continues to be a very difficult market environment. That significant and continuing turn-around in a relatively short period of time is a result of the aggressive implementation of a refined asset allocation developed by our consultant, Summit Strategies, and adopted by the Board of Trustees. Surely easier said than done, the movement of assets to reflect the new allocation required a tremendous, time-consuming effort by the Board, Summit Strategies and our staff all under the guidance and supervision of our Executive Director Tom Taneyhill.

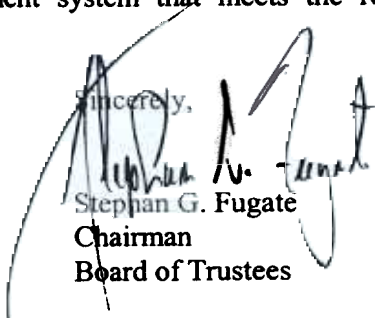
Though nearly complete and performing well, any fund's asset allocation must remain somewhat flexible and fluid to respond to changes in our now global economy as well as internal issues associated with short and long term liabilities. Successfully functioning in such an ever-changing and challenging economic atmosphere requires constant monitoring and assessment of existing positions and new opportunities.

This year also witnessed the culmination of a physical move to permanent office space to better serve our members and their needs from initial enrollment through retirement and everything in between. Once again, while different from a change of asset allocation, the transition from City Hall to temporary space and ultimately to permanent space could not have been accomplished without the dedication and hard work of our staff.

There were also several very positive additions to the Board of Trustees in filling vacated positions. Deputy Police Commissioner Errol L. Dutton has been appointed to represent Commissioner Leonard Hamm; Deputy Chief Corey D. Curbeam will represent Fire Chief William J. Goodwin, Jr. and Mr. Peter Keith, Esq. has been appointed by Mayor O'Malley to serve on the Board. We are pleased to note that Mr. Robert Schaefer has been re-appointed by Mayor O'Malley and we highly value the expertise and experience Mr. Schaefer brings to the Board.

Finally work has begun on the evaluation and review of some key benefit structures within our system in consideration of the basic Plan solvency. Specifically, our current Deferred Retirement Option Plan (DROP) and the formula for post-retirement increases known as the Variable Annuity will be put to forward looking actuarial testing aimed at preserving the benefits while controlling the costs. The ultimate goal of such work is the preservation of our defined benefit retirement system that meets the retirement needs of our Plan participants and beneficiaries.

Sincerely,


Stephan G. Fugate
Chairman
Board of Trustees

Fire and Police Employees' Retirement System

City of Baltimore, Maryland

LEGAL AND GENERAL COUNSEL, ACTUARY, AND INDEPENDENT AUDITOR

LEGAL COUNSEL

Law Department
City of Baltimore
Ralph Tyler, Esq.
Richard E. Kagan, Esq.

GENERAL COUNSEL

Fire and Police Employees' Retirement System
City of Baltimore
Abraham M. Schwartz, Esq.

ACTUARY

Mercer Human Resource Consulting
Douglas L. Rowe, F.S.A.
Baltimore, Maryland

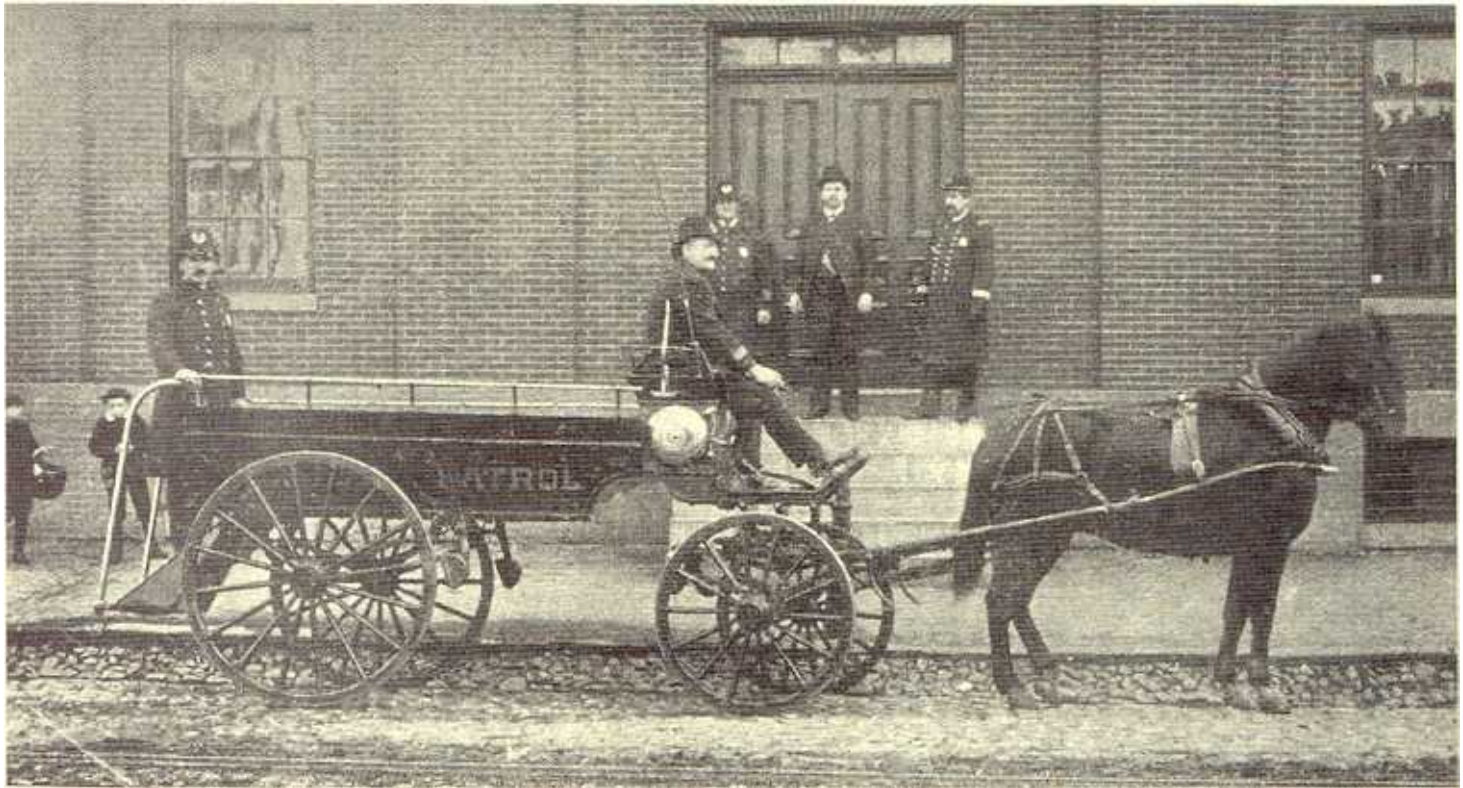
INDEPENDENT AUDITOR

Department of Audits
City of Baltimore
Robert L. McCarty, Jr., CPA

See pages 49 and 50 in the Investment Section for a list of investment professionals.

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Financial Section



CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF AUDITS

ROBERT L. McCARTY, JR., CPA
Acting City Auditor

Room 321, City Hall
Baltimore, Maryland 21202
Telephone: (410) 396-4783
Telefax: (410) 545-3961

December 14, 2005

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates of the
City of Baltimore
Board of Trustees of the
Fire and Police Employees' Retirement System

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Fire and Police Employees' Retirement System of the City of Baltimore, Maryland, a component unit of the City of Baltimore, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Fire and Police Employees' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

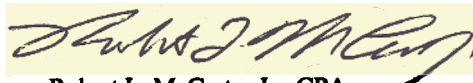
We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fire and Police Employees' Retirement System's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fire and Police Employees' Retirement System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Fire and Police Employees' Retirement System as of June 30, 2005, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 14, 2005, on our consideration of the Fire and Police Employees' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, as listed in the table of contents, is not a part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Management's Discussion and Analysis. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire and Police Employees' Retirement System's basic financial statements. The introductory section, required supplementary information and supporting schedules, investment section, actuarial section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.


Robert L. McCarty, Jr., CPA
Acting City Auditor

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of the Fire and Police Employees' Retirement System (F&P, Plan, System) for the fiscal year ended June 30, 2005. Readers are encouraged to consider the information presented here in conjunction with additional information furnished in the Transmittal Letter, which begins on page 5 of this report.

Financial Highlights

- The net assets of the F&P at the fiscal year ended June 30, 2005 are \$2.0 billion. All of the net assets are available to meet the ongoing obligations to plan participants and their beneficiaries.
- The net assets held in trust for pension benefits increased by \$120.0 million or 6.3%, primarily as a result of the strong positive returns by the system's domestic and international equity portfolios and real estate portfolio.
- The total investment portfolio rate of return for the fiscal year ended June 30, 2005 was 12.1% compared to the fiscal year ended June 30, 2004 rate of return of 16.2%. The 12.1% return for fiscal year 2005 ranked the F&P in the 3rd percentile of the Independent Consultants' Cooperative public fund universe.
- The F&P's funding objective is to meet benefit obligations by achieving an 8.25% investment rate of return over the long-term, through employer and member contributions. As of June 30, 2005, the date of the system's last actuarial valuation, the F&P was slightly under-funded on an actuarial basis. The funded ratio for the F&P was 95.9%. In general, this indicates that the F&P has approximately \$0.96 of assets to cover every dollar of benefits due.
- Revenues (Additions to Plan Net Assets) for the year were \$282.7 million, an increase of \$1.9 million from the prior year revenues of \$280.8 million. Current year revenues include member and employer contributions of \$64.0 million, net investment income of \$218.3 million, and net securities lending income of \$0.4 million.
- Expenses (Deductions from Plan Net Assets) were \$162.4 million in the current year, an increase of \$7.5 million from the prior year expenses of \$154.9 million. Retirement allowances increased \$9.1 million to \$136.0 million. Lump-sum distributions to members who retired from the Deferred Retirement Option Plan (DROP) decreased by \$2.2 million to \$22.3 million. The increase in the retirement benefits is mainly attributable to service benefits for members delaying retirement to obtain Full DROP retirement benefits at higher compensation levels and a 4.05% post-retirement increase.
- Expenditures relating to the relocation of the F&P offices continued in fiscal year 2005. Capital assets, which are recorded at cost, include capitalized costs relating to leasehold improvements, computer equipment and office furniture. Leasehold improvements and office furniture are depreciated on a straight-line basis over 15 years, the life of the building lease. The computer equipment is depreciated on a straight-line basis over a 5 year useful life.

Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to the F&P financial statements and the Financial Section of this report.

The **Statement of Plan Net Assets** provides a snapshot of the financial position of the F&P at June 30, 2005, the end of the plan's financial year. It indicates the total assets and total liabilities at June 30, 2005, and the net assets available for future payment of retirement benefits and operating expenditures.

The **Statement of Changes in Plan Net Assets**, on the other hand, summarizes the F&P financial activities that occurred during the plan's financial year from July 1, 2004 through June 30, 2005.

The **Notes to the Basic Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS

The statements and the notes are in conformity with the accounting principles generally accepted in the United States. These principles require certain financial statement presentations and disclosures including the use of the accrual basis of accounting to record assets and liabilities, and revenues and expenses. The Statement of Plan Net Assets presents the F&P assets and liabilities, as well as, the net assets available for future retirement benefits and operating expenses at June 30, 2005. The assets comprise cash and cash equivalents, which are fixed income instruments with one year or less to maturity; receivables, which are mainly from investment activity; investments at fair market value; securities lending collateral; and capital assets, which includes computer equipment, office furniture and leasehold improvements. Securities traded on national or international exchanges are valued at the last reported sale price at current exchange rates. Purchases and sales of investments are recorded on a trade date basis. The fair value of real estate holdings is based primarily on appraisals by third-party appraisers. The liabilities comprise payables for securities lending collateral, certain investment activity, lump sum distributions payable to members and administrative expenses.

The Statement of Changes in Plan Net Assets presents information showing how the F&P net assets changed during the fiscal year ended June 30, 2005. Employer contributions are recognized when a formal commitment has been made by the employer to provide the contributions. Member contributions are recognized in the period in which the contributions are due. All investment gains and losses are recorded at trade date. Both realized and unrealized gains and losses are shown on investments. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan provisions.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets can be found on pages 21 and 22 of this report.

The Required Supplementary Information that follows immediately after the notes to the basic financial statements provides two schedules showing ten-year historical trend information concerning the funded status of the F&P and contributions made by the employer. See the Required Supplementary Information beginning on page 30 of this report.

The remaining supplemental schedules provide additional detailed information concerning operating expenses, investment expenses and payments to consultants. All of this information is considered useful in understanding and evaluating the financial activities of the F&P.

Financial Analysis

The examination of plan net assets over time may serve as a useful indicator of the financial position of the F&P. At June 30, 2005, assets exceeded liabilities by \$2.0 billion. All of the net assets are available to meet the ongoing obligations to the F&P participants and beneficiaries. As of June 30, 2005, total net assets increased by 6.3% over the prior year primarily due to the increase in the fair value of the System's domestic and international equity securities and real estate portfolios. The System's management believes that the F&P remains in a strong financial position to meet its obligations to the membership.

Plan Net Assets For the Fiscal Years ended June 30, 2005 and 2004

	2005	2004	Increase (Decrease)	Percentage Change
Current assets	\$ 85,426,815	\$ 81,325,051	\$ 4,101,764	5.0%
Capital assets	1,178,367	442,309	736,058	166.4
Investments at fair value	2,234,086,982	2,138,247,292	95,839,690	4.5
Total Assets	2,320,692,164	2,220,014,652	100,677,512	4.5
Current liabilities	304,642,050	324,307,181	(19,665,131)	(6.1)
Total Liabilities	304,642,050	324,307,181	(19,665,131)	(6.1)
Net Assets	\$2,016,050,114	\$1,895,707,471	\$120,342,643	6.3%

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS

Investment Assets

The Board of Trustees is a long-term investor that manages its assets with long-term objectives in mind. A primary element of the F&P investment philosophy is that diversification among various asset classes lowers investment risk and it is the best way to achieve its investment objectives to fund plan benefits and reduce required employer contributions.

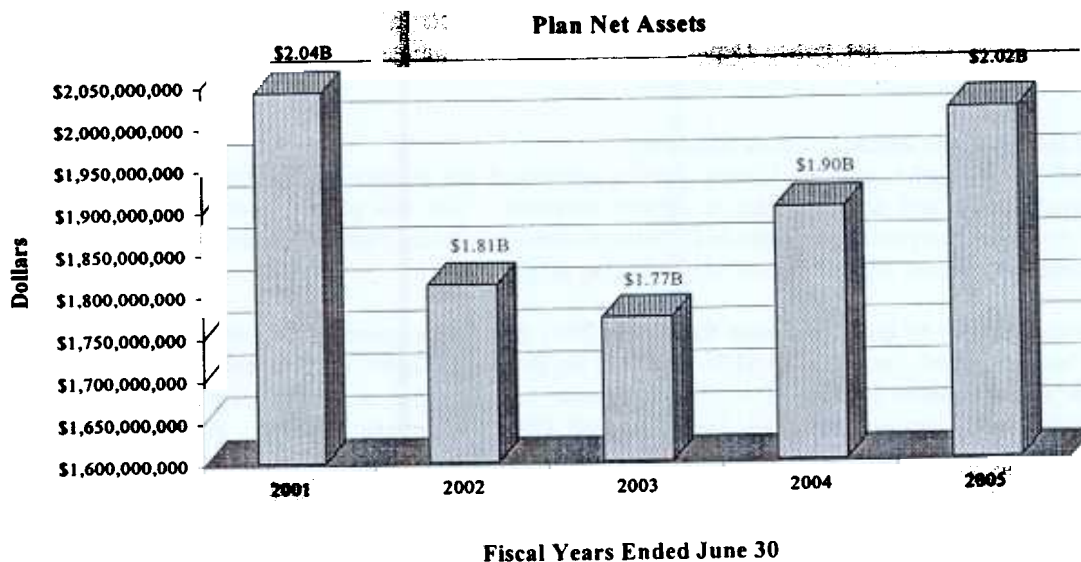
Investments are stated at fair value rather than at cost and include the recognition of unrealized gains and losses in the current period. The rate of return on investments for the year ended June 30, 2005 was 12.1%, which was attributed to positive performance in the domestic equity portfolio and very strong performance in the international equity and real estate portfolios. The total portfolio annualized rate of return for the last three and five-year periods ended June 30, 2005 was 9.5% and 2.4%, respectively. The diversification of the F&P's assets across multiple classes and strategies minimizes the risk of large losses. The F&P's long-term actuarial investment return assumption is 8.25%.

The F&P invests in domestic and international equities, domestic fixed income, hedge funds and real estate. The System also participates in a securities lending program which is managed by the System's custodian bank. External investment management firms selected by the Board of Trustees manage all assets. Mellon Global Securities Services, the F&P's custodian bank, holds all marketable securities in custody.

Beginning on page 38 of this report, the Investment Section gives detailed information on the F&P investment policies. See page 45 for the comparison of the asset allocation targets established by the Board of Trustees to the actual asset allocation at June 30, 2005.

Liabilities

The current liabilities are payables incurred by the transaction activity of the investment assets, the lump sum benefits payable to members, and the operating expenses of the F&P office.



Fire and Police Employees' Retirement System
City of Baltimore, Maryland
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Plan Net Assets
For the Fiscal Years Ended June 30, 2005 and 2004

	2005	2004	Increase (Decrease)
Additions			
Net investment income	\$ 218,297,510	\$222,184,012	\$ (3,886,502)
Employer contributions	48,666,701	42,699,166	5,967,535
Member contributions	15,359,931	15,421,154	(61,223)
Net securities lending income	<u>389,616</u>	<u>536,506</u>	<u>(146,890)</u>
Total Additions	282,713,758	280,840,838	1,872,920
Deductions			
Retirement allowances	135,950,256	126,884,291	9,065,965
Lump sum DROP payments	22,253,341	24,494,758	(2,241,417)
Administrative expenses	2,143,390	1,905,163	238,227
Refunds of member contributions	1,403,449	1,093,504	309,945
Death benefits	<u>620,679</u>	<u>551,962</u>	<u>68,717</u>
Total Deductions	<u>162,371,115</u>	<u>154,929,678</u>	<u>7,441,437</u>
Net Increase (Decrease)	<u>\$ 120,342,643</u>	<u>\$ 125,911,160</u>	<u>\$ (5,568,517)</u>

Investment Income and Contributions

In fiscal year 2005, the F&P's investment portfolio benefited from the growth in the global equity markets and very strong domestic real estate markets. The domestic and international equity portfolios returned 9.9% and 24.1%, respectively, and the real estate portfolio returned 20.2% in fiscal year 2005. The net investment income is reduced by investment expenses, which were \$6.7 million and \$4.6 million for fiscal years 2005 and 2004, respectively. In fiscal year 2005, the City of Baltimore contributed \$48.3 million, compared to \$42.4 million in fiscal year 2004. The \$6.0 million increase in the City's fiscal year 2005 employer contribution was mainly due to poor investment performance resulting from the dramatic downturn in the global equity markets in previous years. Member contributions decreased because in fiscal year 2004 Police Department members had twenty-seven biweekly pays, one more than the normal twenty-six pays that occurred in fiscal year 2005.

Retirement Benefits and Administrative Expenses

The F&P was created to provide lifetime service retirement and permanent disability benefits to eligible members and their beneficiaries, and death benefits to eligible survivors. The cost of such programs includes recurring retirement benefit payments, lump-sum payments to Deferred Retirement Option Plan participants, lump sum death benefits, refunds to terminated members, and the cost of administering the system.

The primary source of expense during fiscal year 2005 was for the payment of continuing retirement benefits totaling \$136.0 million, which compares to \$126.9 million for fiscal year 2004. Retirement allowances increased \$9.1 million due to a post-retirement increase of 4.05%, an increase in the number of benefit recipients and the number of members now retiring at higher compensation levels on Full DROP retirement benefits. Administrative expenses increased because of higher personnel costs and the lease payments for new office space.

Requests for Information

This report is designed to provide a general overview of the F&P's financial activity. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Thomas P. Taneyhill, CPA, Executive Director
Fire and Police Employees' Retirement System
7 East Redwood Street, 19th Floor
Baltimore, Maryland 21202

Fire and Police Employees' Retirement System
City of Baltimore, Maryland,
STATEMENT OF PLAN NET ASSETS
June 30, 2005

Assets

Cash and Cash Equivalents		\$ 74,555,923
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Receivables

Accrued income	\$ 5,259,879	
Investments sold	5,600,816	
Other receivables	<u>10,197</u>	
Total Receivables		10,870,892

Investments, at fair value

Stocks	1,074,549,306	
Bonds	655,296,726	
Real estate	169,226,901	
Hedge funds	<u>79,705,071</u>	
Total Investments		,978,778,004

Capital Assets, net of depreciation

Computer equipment	386,244	
Office furniture	115,180	
Leasehold improvements	<u>676,943</u>	
Total Capital Assets, net of depreciation		1,178,367

Securities Lending Collateral

255,308,978

Total Assets

2,320,692,164

Liabilities

Securities lending collateral	255,308,978	
Investments purchased	43,962,682	
Lump sum benefits payable	3,310,916	
Investment management fees payable	1,478,487	
Administrative expenses payable	483,616	
Other accounts payable	<u>97,371</u>	
Total Liabilities		<u>304,642,050</u>

Net Assets Held in Trust for Pension Benefits

\$2,016,050,114

A schedule of funding progress is presented on page 30

The notes to the basic financial statements are an integral part of this statement.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
STATEMENT OF CHANGES IN PLAN NET ASSETS
For the Year Ended June 30, 2005

Additions

Contributions

Employers

\$48,666,701

Plan members

15,359,931

Total Contributions

\$ 64,026,632

Investment Income

Interest and dividends

39,854,540

Net appreciation in fair value of investments

178,447,959

Real estate income

6,651,544

Less: Investment expenses

(6,656,533)

Net Investment Income

218,297,510

Securities lending income

556,554

Less: Securities lending expenses

(166,938)

Net Securities lending income

389,616

Total Additions

282,713,758

Deductions

Retirement allowances

135,950,256

Lump sum DROP payments

22,253,341

Administrative expenses

2,143,390

Refunds of member contributions

1,403,449

Death benefits

620,679

Total Deductions

162,371,115

Net Increase

120,342,643

Net Assets Held in Trust for Pension Benefits

July 1, 2004

1,895,707,471

June 30, 2005

\$2,016,050,114

The notes to the basic financial statements are an integral part of this statement.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

1. Plan Description:

The Fire and Police Employees' Retirement System of the City of Baltimore (F&P, Plan, System) is the administrator of a single employer defined benefit local government retirement plan. Established July 1, 1962, the plan covers all uniformed personnel of the Baltimore City Fire and Police Departments. In addition, the plan includes twenty-five fire and police officers who are employees of the State of Maryland; this contingent emanated from when the City of Baltimore owned the Baltimore/Washington International Thurgood Marshall Airport. Based on criteria established by the Governmental Accounting Standards Board, the F&P is a component unit of the City of Baltimore and is included in the City's financial report as a public employees retirement system (PERS).

At June 30, 2005, the F&P membership consisted of:

Retirees and beneficiaries currently receiving benefits	5,578
Active plan members	<u>4,690</u>
Total	<u>10,268</u>

The F&P provides normal service retirement benefits, as well as, death and disability benefits in accordance with Article 22 of the Baltimore City Code, which may be amended only by the Mayor and City Council. The reduction of benefits is precluded by the City Code. Membership in the System is mandatory upon employment.

Post retirement benefit increases are provided to those eligible retirees and beneficiaries when the plan is determined at June 30 to have excess investment earnings, as specified by law. See the description of the Paid Up Benefit Reserve and the Contingency Reserve as noted under "Contributions and Reserves" in Note 3.

2. Summary of Significant Accounting Policies:

Basis of Presentation:

The accounting and financial reporting policies of the F&P included in this report conform to accounting principles generally accepted in the United States and reporting standards as promulgated by the Governmental Accounting Standards Board, which designates accounting principles and financial reporting standards applicable to PERS. This report includes solely the accounts of the F&P, a component unit of the City of Baltimore.

There are no component units of the F&P based on the nature of operational or financial relationships.

Basis of Accounting:

These financial statements have been prepared on the accrual basis of accounting, whereby revenues are recorded when they are earned, expenses are recorded when liabilities are incurred, and investment purchases and sales are recorded as of their trade date. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments:

Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at the current exchange rates. The real estate holdings are based on the most recent appraisal (either internal to the manager or third party) as then presently available. Investments that do not have an established market are reported at estimated fair value.

Effective July 1, 2004, F&P adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosure*. This statement modifies and establishes certain financial statement disclosure requirements. Accordingly, Note 5 has been revised to conform to the provisions of GASB Statement No. 40.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

3. Contributions and Reserves:

F&P members are required to contribute 6% of their regular compensation through payroll deduction. The employer contributions are determined through an actuarial valuation. According to the plan provisions, contribution requirements of the plan members and the City are established and may be amended by the Mayor and City Council. The valuation method is stipulated in the plan provisions. Administrative costs of the F&P are paid from investment earnings.

The plan provisions, Article 22 of the Baltimore City Code, established the following reserves:

Annuity Savings Reserve - Accumulated in this reserve are members' contributions inclusive of interest credits, less amounts distributed upon termination of employment or death, or transferred to another reserve for retirement.

Annuity Reserve - Upon retirement, the accumulated contributions of members are transferred to this reserve. From this reserve, the members' accumulated contributions are paid as a life annuity.

Pension Accumulation Reserve - Employer contributions are credited and accumulated with earnings in this reserve. DROP benefits and certain death benefits are paid from here. In addition, when a member retires, an amount equal to the member's pension reserve is transferred from this reserve to the Pension Reserve.

Pension Reserve - From this reserve is paid the pension portion of the retirement allowance. The pension represents benefits for life derived from employer contributions and investment income.

Paid Up Benefit Reserve - Credited to this reserve are a portion of excess investment earnings, as defined by the plan provisions, and all earnings on the investments of this reserve. Post-retirement benefit increases provided by the excess earnings are paid from this reserve.

Contingency Reserve - Credited to this reserve are a portion of excess investment earnings, as defined by the plan provisions, and all earnings on the investments of this reserve. The Contingency Reserve was created to insure payment of benefit increases payable from the Paid Up Benefit Reserve. In the event of a deficit in the Paid Up Benefit Reserve, assets would be transferred to that reserve from the Contingency Reserve.

At June 30, 2005, the balances in the legally required reserves are as follows:

<u>Reserves</u>	<u>Balance</u>
Annuity savings reserve	\$ 200,799,034
Annuity reserve	206,987,293
Pension accumulation reserve	161,737,794
Pension reserve	1,046,702,083
Paid up benefit reserve	368,481,676
Contingency reserve	<u>31,342,234</u>
Total Reserves	<u>\$ 2,016,050,114</u>

At June 30, 2005, the actuarially determined accrued liability exceeded the assets in the Pension Accumulation Reserve by \$104,419,525.

4. Securities Lending:

The Board of Trustees entered into a Securities Lending Authorization Agreement with the System's custodian bank, Mellon Global Securities Services. All individual securities which are readily marketable and which are not restricted due to an outstanding short option are eligible for loan at the discretion of the custodian bank. The investment manager may loan securities held in custody of commingled accounts if authorized in the manager's contract with the F&P.

Collateral received in exchange for securities loaned is collected in an escrow account for the F&P's benefit for the duration of the loan. At no time will the System lose custody of the loaned securities. Collateral in exchange for the principal loaned may be in the form of cash, or securities issued or guaranteed by the U.S. government, its agencies or instrumentalities. Irrevocable Letters of Credit from banks approved by the custodian may not be used as collateral. The minimum levels of collateral will be set at 102% of the market value of domestic securities loaned, including all accrued income, and 105% of the market value of international securities loaned, including all accrued income. If the market value of the collateral falls below 100% of the loaned securities, additional collateral will be collected to maintain the appropriate minimum level. All collateral amounts will be marked to market daily. The F&P does not have the right to sell or pledge securities received as collateral without borrower default.

At June 30, 2005, the F&P had no credit risk exposure to borrowers because the amounts the F&P owes borrowers exceeded the amounts the borrowers owed the F&P. The market value of securities on loan at June 30, 2005, was \$249,257,737 and the market value of the collateral received for those securities on loan was \$255,308,978. The F&P did not impose any restrictions during the fiscal year on the amount of loans the custodian made on its behalf. The terms of the Securities Lending Authorization Agreement require that the custodian indemnify the F&P against: (1) the failure to demand adequate and appropriate collateral from a borrower; (2) the failure to comply with the investment guidelines in connection with the investment and reinvestment of cash collateral; (3) the failure to obtain and perfect a security interest or rights equivalent thereto in and to the collateral; and (4) the failure to make a reasoned determination of the creditworthiness of any borrower. There were no such failures by any borrowers during the fiscal year. Moreover, there were no losses during the fiscal year resulting from default of the borrower or the custodian.

Substantially all securities loans can be terminated on demand either by the custodian or by the borrower, although generally the average term of these loans is one week. Cash collateral is invested in the custodian's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20% of the invested cash collateral is to be available each business day and the dollar weighted average maturity of holdings should not exceed 90 days.

5. Cash and Investments:

The System's cash deposits are entirely covered by federal depository insurance at all times.

The Board of Trustees (the Board) of the F&P is authorized by the Baltimore City Code to make investments in accordance with the guidelines and limitations set forth in the Code. The Board accomplishes the daily management of the System's investments through an external investment advisor who acts as a fiduciary for the System and through external investment managers. The Board invests the assets of the F&P using the "prudent person standard" which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would in a similar situation. The Board has adopted an investment policy and guidelines to formally document its investment objectives and responsibilities.

Governmental Accounting Standards Board (GASB) Statement No. 40 updates and/or supersedes portions of GASB Statement No. 3. GASB Statement No. 40 establishes more comprehensive disclosure requirements related to investment risks: foreign currency risk exposure, interest rate risk and credit risk by quality.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

The F&P invested assets at June 30, 2005 are presented below:

<u>Investment Type</u>	<u>Fair Value</u>
Debt Securities:	
U.S. Government agency bonds	\$ 186,930,445
Corporate bonds	167,060,840
U.S. treasury notes and bonds	157,675,493
Lehmann aggregate index	143,629,948
Money mutual funds	<u>74,555,923</u>
Total debt securities	<u>729,852,649</u>
Other:	
Domestic equities	793,710,501
International equities	280,838,805
Real estate	169,226,901
Hedge funds	<u>79,705,071</u>
Total other	<u>1,323,481,278</u>
Total investments	2,053,333,927
Less: cash and cash equivalents	<u>74,555,923</u>
Total net investments	<u>\$1,978,778,004</u>

Foreign Currency Risk Exposure

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. It is the Board's policy that external managers demonstrate sensitivity to currency risk. The foreign currency exposure of the System may be hedged back to the U.S. dollar using forward foreign exchange contracts. From 0% to 100% of the foreign currency exposure of a portfolio may be hedged. Cross-hedging to currency other than the U.S. dollar may reach 25% of the total portfolio. Currency speculation is not permitted.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

The F&P exposure to foreign currency risk is presented on the following table:

<u>Currency</u>	<u>Market Value</u>
Euro Currency Unit	\$ 52,728,420
British Pound Sterling	41,199,938
Japanese Yen	26,200,169
South Korean Won	22,374,285
Hong Kong Dollar	16,861,392
Swiss Franc	11,464,546
Mexican New Peso	9,719,488
South African Comm Rand	9,341,232
Malaysian Ringgit	9,285,008
Taiwan Dollar	8,861,500
Brazil Real	7,051,955
Canadian Dollar	6,987,795
Thailand Baht	6,167,830
Turkish Lira	6,095,424
Australian Dollar	5,078,396
Swedish Krona	3,551,876
Norwegian Krone	3,574,781
Chilean Peso	2,689,333
Hungarian Forint	2,400,364
Singapore Dollar	1,670,811
New Zealand Dollar	1,637,348
Indonesian Rupian	455,162
Moldovan Leu	<u>91,025</u>
Total Foreign Currency	<u>\$255,488,078</u>
U.S. Dollars (held in International Equity)	<u>\$ 25,350,727</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. F&P uses the Option Adjusted Duration as a measure of interest rate sensitivity for bonds. Duration is a measure of the approximate sensitivity of a bond's value to interest rate changes. The Board's fixed income interest rate policy states that the effective duration of a portfolio may not exceed 120% of the effective duration of the underlying Lehman Aggregate benchmark.

<u>Asset Type</u>	<u>Option Adjusted Duration</u>	<u>Fair Value</u>
U.S. Government agency bonds	5.70	\$186,930,445
Corporate bonds	3.99	167,060,840
U.S. treasury notes and bonds	5.77	157,675,493
Lehman aggregate index	4.16	143,629,948
Money mutual funds	0.05	<u>74,555,923</u>
Total debt securities		<u>\$729,852,649</u>

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
NOTES TO BASIC FINANCIAL STATEMENTS

Credit Risk by Quality

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Board has not adopted a formal policy to limit credit risk. The F&P's rated debt investments as of June 30, 2005 were rated by a nationally recognized statistical rating agency and are presented below using the Standard and Poor's rating scale:

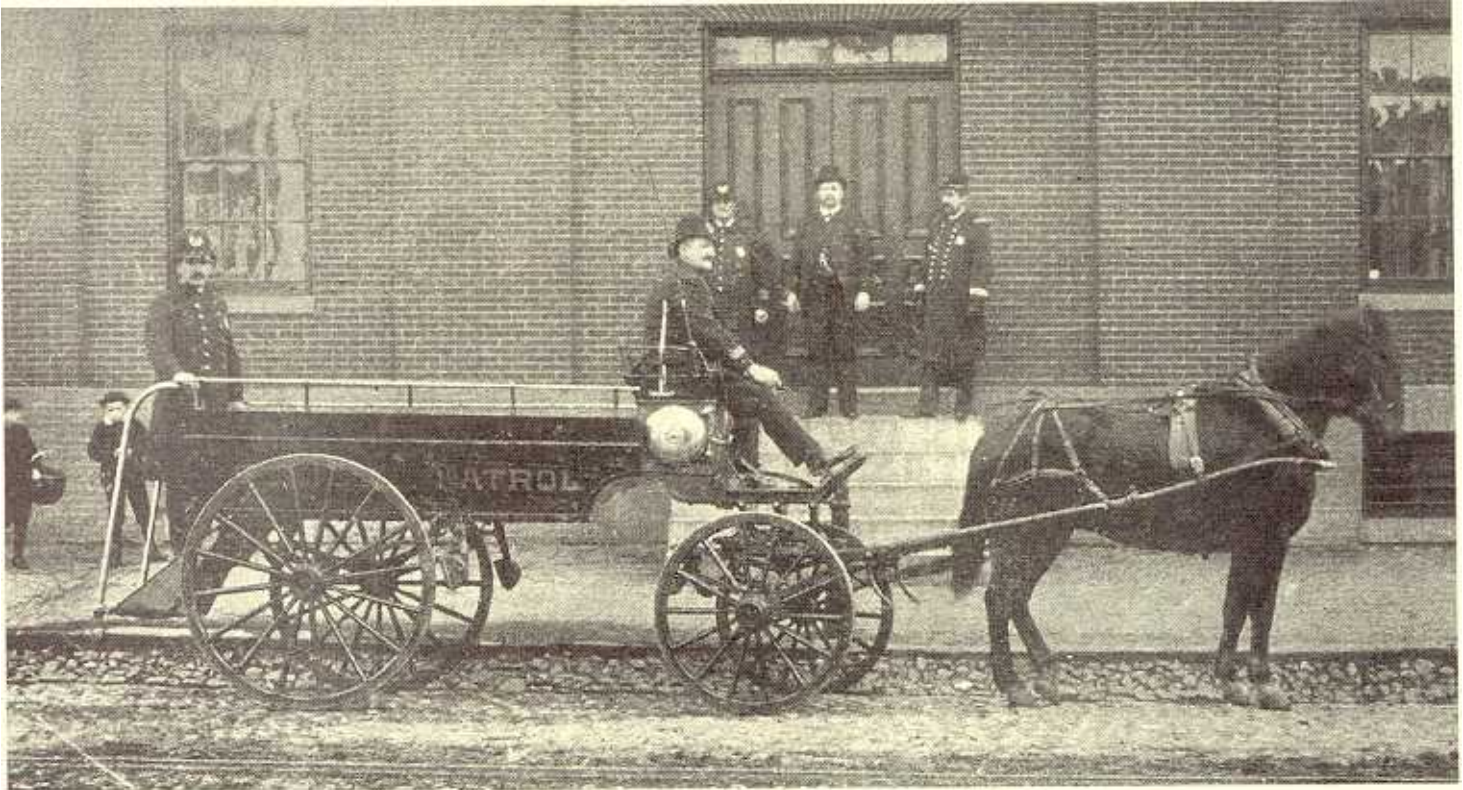
<u>Asset Type</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		<u>AAA thru A</u>	<u>BBB thru B</u>	<u>CCC thru C</u>	<u>Not rated</u>
U.S. Government agency bonds	\$186,930,445	\$186,930,445			
Corporate bonds	167,060,840	80,598,821	\$70,924,217	\$3,876,000	\$ 11,661,802
U.S. treasury notes and bonds	157,675,493	157,675,493			
Lehmann aggregate index	143,629,948				143,629,948
Money mutual funds	<u>74,555,923</u>				<u>74,555,923</u>
Total debt securities	<u>\$729,852,649</u>	<u>\$425,204,759</u>	<u>\$70,924,217</u>	<u>\$3,876,000</u>	<u>\$229,847,673</u>

6. Capital Assets:

Capital Assets consisting of furniture and equipment, computer equipment and leasehold improvements are recorded at cost. Depreciation on computer equipment is calculated on a straight-line basis over a five year useful life; depreciation on leasehold improvements and office furniture is calculated on a straight-line basis over fifteen years, the life of the building lease. Computer equipment and office furniture were put into service in this fiscal year. Thus, depreciation expense of \$92,354 for computer equipment and \$6,206 for office furniture is being recognized. Leasehold improvements for the new office space will be put into service at the beginning of the next fiscal year and depreciation expense for that asset will be recognized over the life of the lease.

	<u>June 2004 Balance</u>	<u>Additions</u>	<u>Depreciation</u>	<u>June 2005 Balance</u>
Computer Equipment	\$385,617	\$ 92,981	\$92,354	\$ 386,244
Office Furniture/Equipment		121,386	6,206	115,180
Leasehold improvements	<u>56,692</u>	<u>620,251</u>		<u>676,943</u>
	<u>\$442,309</u>	<u>\$834,618</u>	<u>\$98,560</u>	<u>\$1,178,367</u>

Required Supplementary information and Supporting Schedules



Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Cost (b)	Unfunded (Excess of) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL (Excess of) as a Percentage of Covered Payroll ((b-a)/c)
1996	\$1,546,336,351	\$1,547,352,690	\$ 1016,339	99.9%	\$173,825,553	0.6%
1997	1,723,838,021	719,217,270	(4,620,751)	100.3	176,872,896	(2.6)
1998	913,979,734	850,539,972	(63,439,762)	103.4	185,816,956	(34.1)
1999	974,471,134	919,288,493	(55,182,641)	102.9	183,068,11	(30.1)
2000	2,078,331,195	2,029,568,487	(48,762,708)	102.4	191,003,156	(25.5)
2001	2,098,740,595	2,096,802,530	(1,938,065)	100.	209,527,825	(0.9)
2002	2,127,393,333	2,173,188,430	45,795,097	97.9	227,785,032	20.
2003	2,205,205,652	2,286,873,035	81,667,383	96.4	245,711,363	33.2
2004	2,320,027,717	2,395,522,699	75,494,982	96.8	241,245,198	31.3
2005	2,456,565,270	560,984,795	104,419,525	95.9	244,814,891	42.7

See notes to required supplementary information.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
Required Supplementary Information
SCHEDULE OF EMPLOYER CONTRIBUTIONS

The Schedule of Employer Contributions presents the required contributions due from the City of Baltimore and the State of Maryland. In addition, the schedule presents the amount of excess earnings elected by the City to reduce the contributions payable to the F&P.

<u>Fiscal Year Ended June 30</u>	<u>City Contribution Per Actuarial Valuation</u>	<u>Reduction In City Contributions Due To Excess Earnings</u>	<u>Contributions Required From Baltimore City</u>	<u>Contributions Required From State of Maryland</u>	<u>Total Contributions Required</u>	<u>Percentage Contributed</u>
1996	\$18,738,410		\$18,738,410	\$ 271,336	\$19,009,746	100%
1997	21,015,505	\$12,000,000	9,015,505	289,741	9,305,246	100
1998	23,501,118	10,000,000	13,501,118	329,487	13,830,605	100
1999	30,439,954	30,439,954		268,139	268,139	100
2000	27,074,061	27,074,061		235,272	235,272	100
2001	27,297,688	27,297,688		217,340	217,340	100
2002	29,192,803	29,192,803		252,220	252,220	100
2003	34,415,552		34,415,552	263,326	34,678,878	100
2004	42,387,801		42,387,801	311,365	42,699,166	00
2005	48,321,205		48,321,205	345,496	48,666,701	00

See notes to required supplementary information.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was derived from the annual actuarial valuations prepared as of each June 30. Additional information from the latest actuarial valuation dated June 30, 2005 follows:

Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar, open
Amortization period:	20 year period; only one amortization base.
Asset valuation method:	Market value adjusted for investment surpluses and deficits relative to investment assumptions, phased-in at 20% each year.
Actuarial assumptions:	
Investment rate of return	
Pre-retirement	8.25%
Post-retirement	6.80%
Projected salary increases	4.00% to 8.50%, includes inflation at 3.00%
Post-retirement cost-of-living adjustments	Dependent upon investment performance which must exceed 7.50% as calculated each fiscal year end.

2. Ordinance 42 of 1996 provided for new plan benefit improvements and the use of actuarial interest surplus. The plan benefit improvements, which include a Deferred Retirement Option Plan (DROP); a reduction in the member contribution for one year, a one time lump sum payment to retirees and beneficiaries who were receiving retirement benefits as of June 30, 1996, and additional service credit and a revised calculation of the members' average final compensation for members having thirty-five or more years of service and who retire on or after June 1, 1996 and on or before August 31, 1996, increased the June 30, 1996 actuarial accrued liability by \$10.0 million. The Ordinance required the application of \$12.0 million of actuarial interest surplus to reduce the unfunded accrued liability. The Ordinance also required the application of \$12.0 million of actuarial interest surplus to reduce the fiscal year 1997 employer contribution.

The June 30, 1996, Unfunded Accrued Liability (UAL) was further impacted by three more events. First, a higher than assumed pay increase in covered payroll for fiscal year 1996 increased the June 30, 1996, UAL by \$9.0 million. Second, no pay increases for fiscal year 1997 resulted in a decrease in the June 30, 1996, UAL of \$21.0 million. Third, changes in actuarial assumptions, which included revising the service retirement and withdrawal rates to reflect the new DROP provisions, increased the June 30, 1996, UAL by an additional \$3.0 million.

The Board approved the use of \$17.0 million of actuarial interest surplus to reduce the June 30, 1996, unfunded accrued liability to offset an \$1.7 million increase in employer contributions due to changes in actuarial assumptions.

3. Ordinance 97-164 of 1997 allows the City to utilize excess earnings to reduce or eliminate its required employer contribution. For fiscal year 1998, the City elected to apply \$10.0 million of excess earnings to reduce the amount of required employer contribution.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

4. Changes in actuarial assumptions, which included a slight reduction in the salary scale, a reduction in the mortality rates for line-of-duty deaths and for service retirements, lowering withdrawal rates by 10% for ages 30-39 for non-officers, lowering disability rates, and changes in DROP and retirement assumptions increased the June 30, 1999, actuarial accrued liability by \$10.2 million. These changes in actuarial assumptions increased employer contributions by \$1.1 million.

As provided in the plan provisions, the City can utilize excess earnings to reduce or eliminate its required employer contribution. For fiscal year 1999, the City elected to apply \$30.4 million of the excess earnings to eliminate having to make its required employer contribution.

5. Ordinance 00-49 of 2000 provided for plan benefit improvements for active members and most retirees and beneficiaries. The improvements which included a one percent increase to retirees and beneficiaries who were receiving retirement benefits as of June 30, 2000, a reduction in the member contribution for one year, an increase in the accrual rates for Intermediate and Full Deferred Retirement Option Plan (DROP) retirement benefits, and a reduction in the time period to attain eligibility for a Full DROP retirement benefit, increased the June 30, 2000 actuarial accrued liability by \$61.7 million. Ordinance 97-164 of 1997, allows the use of excess earnings to reduce the cost of plan benefit improvements. For fiscal year 2000, excess earnings in the amount of \$61.7 million was used to offset the cost of these plan benefit improvements on the actuarial accrued liability.
6. Ordinance 03-576 of 2003 provided amendments and clarifications to the plan provisions that effected current and future active members. The ordinance clarified the provisions regarding service credit while members are on military leave of absence to conform to federal and state laws. The improvements amended or added provisions to allow certain members to purchase previous service credits lost due to separation from service, to allow members to purchase up to 6 months of Maryland Police Corps training time for service credit, and to allow members to transfer certain service credits from former federal and state governmental pension and retirement systems outside the state of Maryland. The ordinance also placed restrictions on how much service credit can be transferred to the F&P from other qualified plans based on whether the service was in a uniformed position or civilian position. In addition, the ordinance added restrictions to the service retirement requirements and to the eligibility requirements to enter the Deferred Retirement Option Plan for members who enter the F&P on or after July 1, 2003, and required a minimum of ten years of service as a member of the F&P and as an employee paid by the Mayor and City Council of Baltimore. The ordinance did not have a material financial impact on the System.
7. Preceding the preparation of the June 30, 2005 Actuarial Valuation Report, the System's actuary performed an Actuarial Experience Study for the three year period ended June 30, 2005. As a result of the Experience Study, the Board of Trustees adopted changes in actuarial assumptions which included increases to the salary scale for most ages, reductions to pre-retirement and post-retirement mortality rates, increases to withdraw rates for members under age 50, decreases to withdraw rates for members over age 50, reductions to non-line-of-duty disability rates for members age 40 and above, increases to line-of-duty disability rates for ages 44 and below, an increase to the DROP participation rate, and changes to both DROP and non-DROP retirement rates. These assumption changes, which were incorporated into the June 30, 2005 actuarial valuation, increased the actuarial accrued liability \$39.5 million. The Board approved utilization of \$34.3 million of excess investment earnings to reduce the increase in the unfunded accrued liability.
8. A plan provision that required that excess earnings be credited and deficit earnings be charged to certain actuarial reserves, expired on June 30, 2005. The purpose of the reserves, established June 30, 1996, was to segregate excess positive earnings that could then be utilized by the City to reduce its required employer contributions to the plan and by the plan membership to "purchase" benefit improvements. The reserves were initially utilized for those two purposes. Subsequently, however, because of the downturn in the global equity markets in fiscal years 2001 through 2003, the reserves have instead accumulated net deficit earnings of \$412.8 million as of June 30, 2005. The plan provision now requires that the Board of Trustees apply the deficit in the reserves in accordance with an appropriate asset valuation method. The City administration has requested that the deficiency be recognized as an investment loss over a five year period. It is expected that the City's employer contributions to the plan will substantially increase in future years due to this deficiency.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ADMINISTRATIVE EXPENSES
For the Year Ended June 30, 2005

Salaries and Wages:		
Permanent full-time salaries	\$930,393	
Overtime	<u>12,403</u>	
Total Salaries and Wages		\$ 942,796
Other Personnel Costs:		
Medical insurance and health care	149,095	
Social security	69,987	
Retirement	71,759	
Other employee benefits	<u>10,884</u>	
Total Other Personnel Costs		301,725
Contractual Services:		
Retirement payroll processing	158,529	
Actuarial services	148,583	
Lease payments	144,975	
Technology systems support	142,761	
Other professional services	41,719	
Financial audit fees	26,000	
Postage	22,694	
Printing	22,643	
Trustee education	21,828	
Telephone systems	18,301	
Dues and publications	6,909	
Staff training	6,574	
Equipment rental	5,770	
Equipment maintenance	<u>4,156</u>	
Total Contractual Services		771,442
Depreciation expense		98,561
Office supplies		28,496
Computer equipment		370
Total Administrative Expenses		<u>\$2,143,390</u>

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF INVESTMENT EXPENSES
SCHEDULE OF PAYMENTS TO CONSULTANTS
For the Year Ended June 30, 2005

Schedule of Investment Expenses

Investment Expenses	Fees
Investment management fees	<u>\$6,202,344</u>
Investment advisor fees	238,750
Custodial fees	215,439
Securities lending fees	<u>166,938</u>
Total Investment Expenses	<u>\$6,823,471</u>

Schedule of Payments to Consultants

<u>Firm</u>	<u>Fees</u>	<u>Nature of Service</u>
Mercer Human Resource Consulting		Actuarial services
Baltimore City Department of Audits		Financial audit

Note: A schedule of fees and commissions is also illustrated in the Investment Section on page 48.

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Investment Section





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www.summitstrategies.com

November 25, 2005

To the Board of Trustees of the
Fire & Police Employees' Retirement System of the City of Baltimore

Introduction

This report, prepared for the Fire & Police Employees' Retirement System of the City of Baltimore (System) by Summit Strategies Group (Summit) is based on information supplied by the System's custodian, Mellon Bank, N.A. (Mellon). Mellon provides Summit with beginning and ending market values, cash flows, securities transactions and positions for the System as well as each manager, where applicable. Mellon audits the information contained in its accounting reports monthly. Investment information is reported to the greatest degree possible in conformance with the Performance Standards of the Association for Investment Management and Research (AIMR).

Distinction of Responsibilities

The System's Board of Trustees (Trustees) is responsible for the investment and administration of System assets. This includes establishing the strategic asset allocation which, over time, is the primary determinant of investment returns on assets. A thorough understanding of both the System's assets and liabilities is essential for determining an appropriate asset allocation. The key drivers of this analysis are the projections of the System's liabilities and the projections of expected future returns and risk (as measured by standard deviation of returns) for each asset class as well as correlation between asset classes. The liabilities include all key dimensions of the System's pension plan: membership, benefits, liabilities, assets, and funding requirements. The target asset allocation in place during FY2004-2005 was adopted by the Trustees during FY2003 and implemented during the course FY2004 and FY2005.

Investment Policy/Structure

The asset allocation adopted by the Trustees is included in the System's investment policy. The System employs various investment managers to implement the asset allocation within the guidelines and limitations contained in the investment policy. System assets are invested using numerous investment managers so as to diversify the System's assets among multiple asset classes and investment styles. Each investment manager is delegated full investment discretion for its respective portfolio including the discretion to purchase and sell individual securities, and control industry and economic sector exposure.

The System's investment policy is designed to provide broad diversification among asset classes in order to maximize return at an appropriate level of risk and to minimize the risk of large losses to the System. In addition, asset allocation ranges, target allocations and a process of periodic rebalancing are used to maintain compliance with the investment policy and to increase the likelihood that the System will achieve its long-term risk and return objectives. The following table outlines the System's long term target asset allocation:

Asset Class	Allocation Target
U.S. Equity	45%
International Equity	15%
Private Equity	5%
Total Equity	65%
U.S. Fixed Income	20%
Real Estate	10%
Alternative Strategies	5%
Total Portfolio	100%

Within each asset class, the Trustees employ several investment managers to further diversify the investment approach and to minimize style biases. The Trustees employ both active and passive investment strategies to obtain the desired asset allocation mix in a cost effective and efficient manner.

Investment Objectives

The System's investment policy contains the following objectives:

1. To preserve the inflation-adjusted capital value of the System;
2. To ensure adequate liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. To exceed the investment return objective without unduly jeopardizing objectives 1-3.

The investment return objective is a hypothetical policy portfolio constructed as follows: 50% Russell 3000 Index, 15% MSCI All Country World Ex US Index, 25% Lehman Aggregate Index, and 10% NCREIF Index. In addition, the System's investment performance is evaluated relative to the Independent Consultant's Cooperative Universe for Public Funds, a performance universe representing the performance of more than 189 (2,992 portfolios) public funds with an aggregate market value of nearly \$684.7 billion as of June 30, 2005. In addition, each investment manager is measured and evaluated against its relevant broad market index and style peer universe.

Market Overview

The U.S. economy continued its strong growth trend during fiscal year 2004-2005. All components of GDP: government spending, consumer spending and business spending continued to expand throughout 2004-2005. The end of the fiscal year saw GDP growth exceeding 3% for the eighth straight quarter, the longest stretch in almost two decades. At the same time, inflationary pressure remained relatively subdued during fiscal year 2004-2005 with CPI rising 2.5%. In addition U.S. unemployment dropped over the year from 5.6% to 5.0%.

Equities, both domestic and international, finished in positive territory for the fiscal year. Large cap U.S. stocks, as measured by the S&P 500 Index returned 6.3%, while small cap stocks, as measured by the Russell 2000 Index returned 9.5%. Non-U.S. stocks in developed countries, as measured by the MSCI EAFE Index returned 14.1% for the fiscal year and their emerging markets counterparts, as measured by the MSCI Emerging Markets Index, returned 34.5% for the year.

During fiscal year 2004-2005 the Federal Reserve continued its policy of "measured" Fed Funds tightening with its ninth consecutive short term interest rate increase in order to control perceived inflationary pressure. The U.S. Treasury yield curve flattened dramatically with the yield spread between the 2 year Treasury Note and 30 year Treasury Bond decreasing to a mere 56 basis points. Two year Treasury bonds gained just 1.8% for the year; conversely, long bonds rallied with the 30 year Treasury Bond returning 22.6%. The U.S. investment grade market as a whole, as measured by the Lehman Aggregate Index, returned 6.8% for the fiscal year. High yield corporate bonds returned 10.4% continuing their outperformance of the previous year.

Investment Performance

The System continued to enjoy the benefits of the strategy used to implement the target asset allocation, as well as the changes in investment managers and expanded list of asset classes that began the previous year. This included the replacement of underperforming managers, the addition of new mid cap growth and value managers, as well as the addition of a hedge fund portfolio managed by two diversified fund-of-fund managers. These actions by the System's Board of Trustees, combined with a continued strong global equity and real estate market, helped the System continue its improved relative ranking in the System's peer Universe and continued achievement of investment goals.

For investment performance measurement purposes, the total investment portfolio is split between "actively managed" accounts and "other" assets. The "other" assets consist of the Cash Reserve, held for the payment of benefits and administrative expenses, and "Post Retirement" assets held in immunized portfolios dedicated solely for the purpose of paying post retirement benefit increases. It is only the actively managed assets that are displayed below. All returns shown below were calculated in accordance with AIMR Performance Presentation Standards.

For the fiscal year ended June 30, 2005, the System's rate of return was 12.1%. The System ranked in the 3rd percentile of the ICC public fund universe for 1 year, and the 10th, 40th, 81st, and 85th percentiles respectively for 2, 3, 4 and 5 trailing year periods. The Fund outperformed its benchmark return of 10.2% by 1.9% for the fiscal year and ranked in the top decile of the peer universe due in part to:

- Higher relative exposure to small and mid cap stocks;
- Higher relative exposure to international stocks, especially emerging markets stocks;
- Overweighting the value style in small-mid and international stocks;
- Higher relative exposure real estate and value-added strategies within real estate; and
- Strong individual manager performance, especially of new managers.

The market value of the actively managed accounts increased from \$1.60 billion on June 30, 2004, to \$1.65 billion on June 30, 2005. The increase in value is primarily attributable to investment related gains across both domestic and international equities as well as real estate. At the end of fiscal year 2004-2005, the System's assets were allocated as follows:

	Market Value (\$ in millions)	Percent of Total	Fiscal Year Rate of Return	
			System	Benchmark
US Equity	\$794.4	48.2%	9.9%	8.1%
International Equity	\$281.4	17.1%	24.1%	16.9%
US Fixed Income	\$321.6	19.5%	6.3%	6.8%
Hedge Funds	\$ 80.5	4.9%	N/A	6.7%
Real Estate	\$169.3	10.3%	20.2%	18.0%
Total Managed Assets	\$1,647.2	100.0%	12.1%	10.2%

Of Note

As mentioned above, the System's Trustees continued the implementation of the asset allocation strategy adopted the previous year. New investment managers were hired to replace underperforming managers (mid cap value and growth) and new strategies were added (hedge funds). Pending at the end of the fiscal year was: funding of private equity and review of certain actuarial assumptions and plan provisions.

It is a pleasure to serve the System, and work with its Staff and Trustees. I look forward to the continued search for competitive investment returns in the current challenging capital market environment.

Sincerely,



Daniel J. Holmes
Managing Director

OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES

Investment Objectives

The primary investment objectives of the Board of Trustees (Board) of the Fire and Police Employees' Retirement System (F&P, System) are set forth below. It is recognized that maximizing any one objective may compromise the achievement of other objectives. For example, maximizing liquidity may reduce investment return; seeking maximum investment return may subject capital preservation to higher risk. Accordingly, the investment objectives are given in descending order of priority:

- To preserve the capital value of the System assets adjusted for inflation;
2. To ensure adequate System liquidity to meet benefit liabilities as they fall due;
3. To meet the actuarial interest rate assumptions; and
4. Without unduly jeopardizing the above objectives, to exceed the investment return objective by the astute management of funds.

General Investment Policy

The Board must comply with investment restrictions imposed by the laws of the City of Baltimore and any other State or Federal laws dealing with investment of public retirement plan assets. System investment managers are expected to familiarize themselves with these laws.

Investment policy for the System relates to the portfolio of all assets that comprise the total holdings of the System. The Board recognizes that the objective of a sound and prudent policy is to produce investment results that will preserve the assets of the System, as well as to maximize earnings of the F&P consistent with its long-term needs. These long-term needs have been ascertained through various studies performed on behalf of the Board by its actuary and its investment advisor. Investment policy and the long-term average allocation of plan assets to which they refer are deemed to be consistent with the projected pattern of cash flows to the F&P and its projected benefit payments. Should the projected finances of the System change significantly, the applicable Federal or State statutes be amended, or changes in the System's asset valuation methods be adopted, these policies and average asset allocations will be reviewed and modified by the action of the Board, if appropriate.

The Board recognizes that its investment portfolio must be diversified over several different asset classifications in order to reduce risk. The following asset allocation has been established as an overall objective for the total holdings of the System:

Percentage of Total Fund at Market Value	
<u>Asset Category</u>	<u>Target</u>
Domestic Equity	45%
International Equity	15%
Private Equity	5%
Domestic Fixed Income	20%
Real Estate	10%
Alternative Strategies	5%

Within each major asset classification, investments are further diversified. Excessive concentration in any particular security, company or industry is to be avoided. Investment guidelines have been supplied to each of the System's investment managers. Subject to these objectives and guidelines, and the System laws, the investment managers have full discretion in investment decisions. Managers are advised to notify the Board in writing if these objectives cannot be met or if the guidelines constrict performance. The investment managers are encouraged to suggest changes to the guidelines at any time.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland

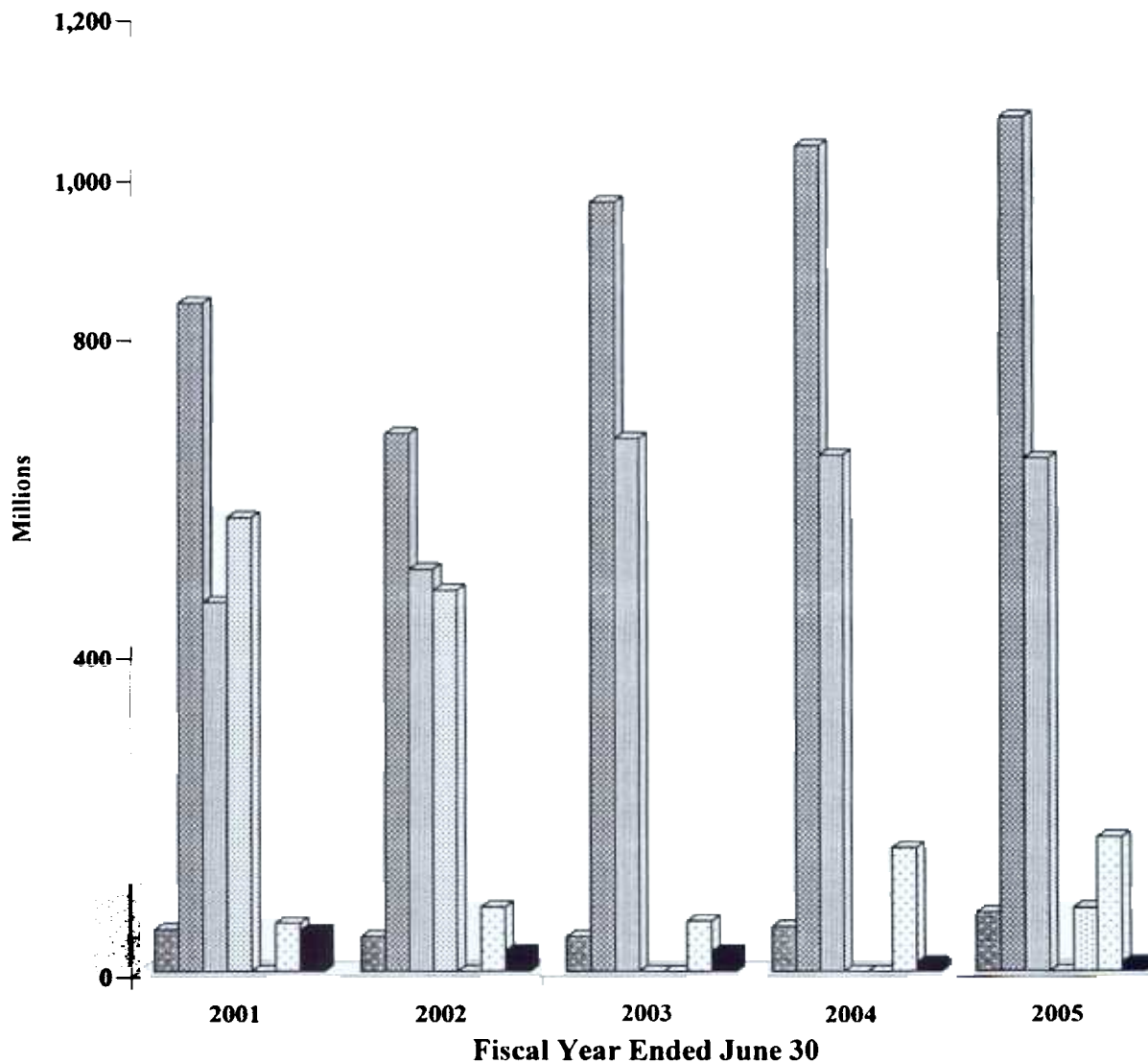
OUTLINE OF INVESTMENT OBJECTIVES AND POLICIES

Proxy Voting

Pursuant to a U.S. Department of Labor directive, the Board has a long standing policy that, when solicitations of proxies with respect to securities are received by an investment manager, the decisions as to whether and how to vote such proxies are delegated to that investment manager.

The Board also recognizes, however, that the investment manager's decisions must be made in accordance with applicable legal standards and that the Board has an obligation to ensure that those standards are being observed. Therefore, the Board requests that annually (June 30) each management firm furnish the System with a written statement of their policy and practices with respect to the voting of securities held in their employee benefit plan asset portfolios, together with their written assurance that such policies and practices are being followed. These statements and assurances will be included, and will be given appropriate weight, in the Board's continuing evaluation of each manager's overall investment performance.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
TOTAL PORTFOLIO COMPOSITION
MARKET VALUE OF INVESTMENTS



■ Cash ■ Stock ■ Bonds ■ Mutual Funds ■ Hedge Funds ■ Real Estate ■ GICS

	2001		2002		2003		2004		2005	
Cash	\$ 53	3%	\$ 44	2%	\$ 44	2%	\$ 57	3%	\$ 74	4%
Stock	840	41	675	37	967	55	1,038	54	1,074	52
Bonds	463	22	504	28	669	38	648	34	644	31
Mutual Funds	569	28	478	27	0	0	0	0	0	0
Real Estate	61	3	81	5	64	4	156	8	169	8
Hedge Funds	0	0	0	0	0	0	0	0	80	4
GICS	52	3	26	1	26	1	12	1	12	1
Total	\$ 2,038	100%	\$ 1,808	100%	\$ 1,770	100%	\$ 1,911	100%	\$ 2,053	100%

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT RESULTS - TIME WEIGHTED RATE OF RETURN

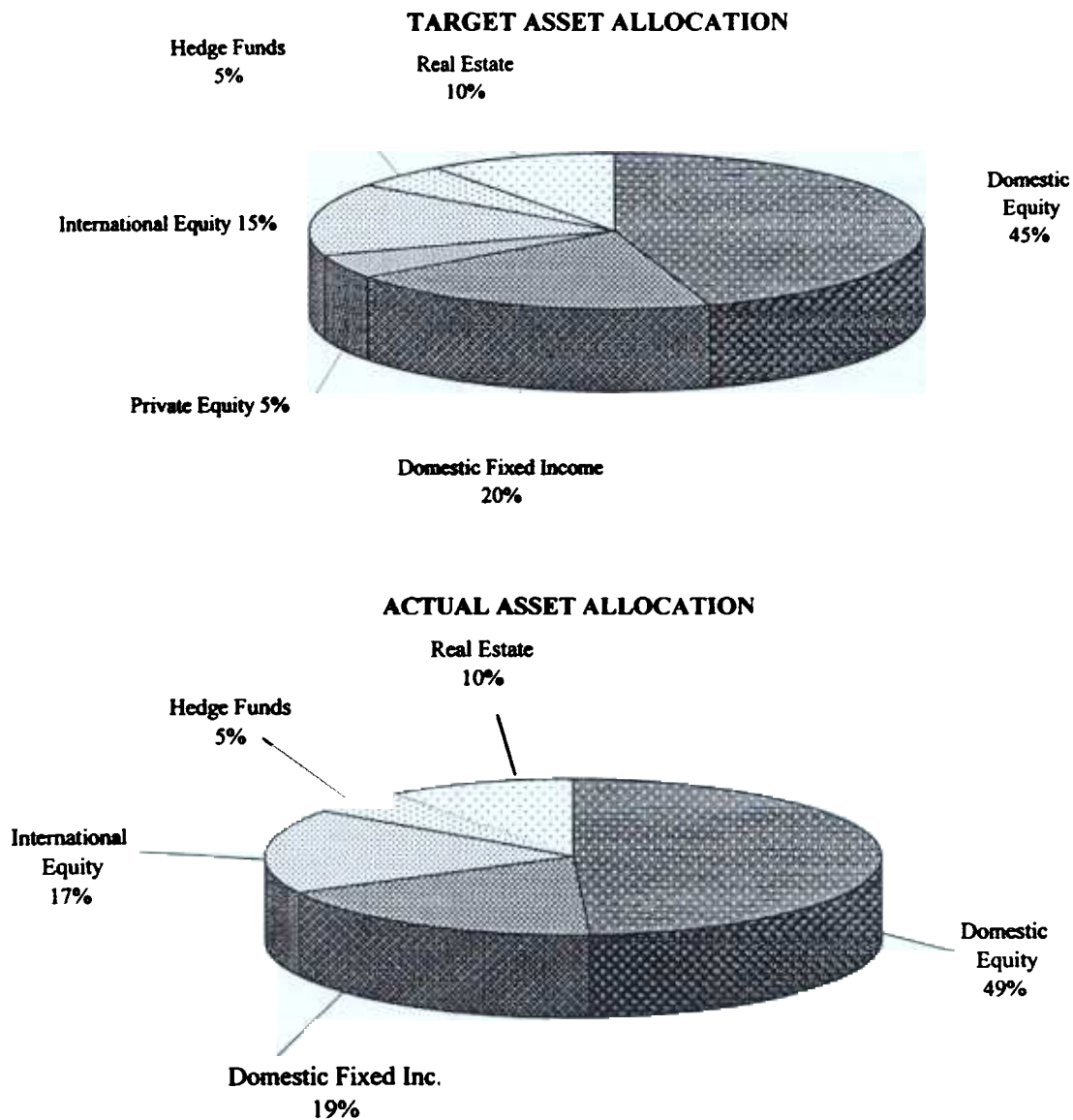
<u>Total Returns</u>	<u>Annualized</u>		
	<u>FY 2005</u>	<u>3 Years</u>	<u>5 Years</u>
TOTAL PORTFOLIO	12.1%	9.5%	2.4%
Composite Benchmark	10.2	9.7	2.1
DOMESTIC EQUITIES	9.9	10.0	(0.2)
S&P 500 Index	6.3	8.3	(2.4)
Russell 1000	7.9	9.2	(1.89)
Russell 2000	9.4	12.8	5.7
Russell 3000	8.1	9.5	(1.4)
INTERNATIONAL EQUITIES	24.1	13.8	2.2
MSCI ACWI Free Ex-US	16.9	14.1	0.8
DOMESTIC FIXED INCOME	6.3	5.5	7.3
Lehman Government/Credit	7.3	6.4	7.7
Lehman Aggregate	6.8	5.8	7.4
HEDGE FUND	n/a	n/a	n/a
Libor + 400	6.7	5.8	6.7
REAL ESTATE	20.2	10.3	10.6
NCREIF Property Index	18.0	12.1	10.6

Notes:

The calculations above were prepared by the System's investment advisor, using a time weighted rate of return, based on market value and in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

The Composite Benchmark exhibits the overall rate of return for a sample unmanaged portfolio. The Composite Benchmark is comprised of 50% Russell 3000, 15% MSCI ACWI Ex-US, 25% Lehman Aggregate, and 10% NCREIF Property.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ASSET ALLOCATION - ACTIVELY MANAGED ACCOUNTS
For the Year Ended June 30, 2005



Note: For asset allocation purposes, only actively managed accounts are included. Assets of the Paid Up Benefit Reserve and the Contingency Reserve are not included in this illustration. The assets of these reserves are invested separately for the sole purpose of providing post retirement benefit increases. Assets in the cash reserve are also excluded from this illustration. These assets are held for the purpose of providing cash for the payment of benefits and administrative expenses.

Fire and Police Employees' Retirement System

City of Baltimore, Maryland

TOP TEN DOMESTIC AND INTERNATIONAL STOCK HOLDINGS BY MARKET VALUE

TOP TEN BOND HOLDINGS BY MARKET VALUE

June 30, 2005

Top Ten Domestic Stock Holdings

	Shares	Stock	Market Value
1)		Yahoo Inc	
2)		Exxon Mobil Corp	
3)		Amazon.Com Inc	
4)		Progressive Corp Ohio	
5)		Ebay Inc	
6)		J P Morgan Chase & Co	
7)		Pfizer Inc	
8)		Bank of America Corp	
9)		Genentech Inc	
10)		Citigroup Inc	

Top Ten International Stock Holdings

	Shares	Stock	Market Value
1)		Sanofi - Aventis Eur2	
2)		Tenaris Sa Sponsored Adr	
3)		Samsung Electrs Kswn5000	
4)		Reliance Inds Ltd	
5)		Cia Energetica Minas Gerais	
6)		Vinci Eur5	
7)		Cnooc Ltd Hkd0.02	
8)		Posco Krw5000	
9)		Steinhoff Intl Hldgs Zar0.005	
10)		Chunghwa Telecom Co Ltd Spons	

Top Ten Bond Holdings

	Par	Bonds	Market Value
1)	\$30,000,000	Israel St U S Government NTS 11/15/2013	
2)	38,700,000	U S Treasury Strip 08/15/2020	
3)	16,000,000	Israel St U S Government NTS 09/15/2010	
4)	34,320,000	U S Treasury Strip 05/15/2030	
5)	8,730,000	U S Treasury Bonds 5.500% 08/15/2028	
6)	13,000,000	U S Treasury Strip 05/15/2012	
7)	10,005,000	U S Treasury Notes 3.000% 11/15/2007	
8)	8,842,000	U S Treasury Notes 5.000% 08/15/2011	
9)	9,220,000	U S Treasury Notes 3.000% 12/31/2006	
10)	9,045,000	Federal National Mortgage Association Zero Cpn 10/08/2006	

A complete list of portfolio holdings is available upon request

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT SUMMARY
June 30, 2005

	<u>Market Value</u>	<u>Percent of Total Investments</u>
Stock:		
Common Stock		
Technology	\$ 194,683,923	9.84%
Financial	181,283,369	9.16
Consumer Services	92,805,879	4.69
Health Care	75,400,118	3.81
Capital Goods	69,687,999	3.52
Energy	51,709,865	2.61
Utilities	38,136,564	1.93
Basic Industries	28,950,366	1.46
Consumer Nondurables	28,551,101	1.44
Consumer Durables	21,691,709	1.10
Transportation	10,722,416	0.54
Total Common Stock	<u>793,623,309</u>	<u>40.10</u>
Other		
International Stock	280,838,805	14.19
Venture Capital	87,192	0.01
Total Other		
Total Stock	<u>1,074,549,306</u>	<u>54.30</u>
Bonds:		
U.S. Securities and Agencies		
Treasury Notes and Bonds	328,179,199	16.59
U.S. Agencies	106,292,763	5.37
Total U.S. Securities and Agencies		<u>21.96</u>
Corporate		
Financial	153,156,106	7.74
Industrial	42,699,711	2.16
Utilities	10,036,828	0.51
Transportation	3,270,317	0.16
Total Corporate		
Total Bonds	<u>643,634,924</u>	<u>32.53</u>
Other Investments:		
Real Estate	169,226,901	8.55
Hedge Funds	79,705,071	4.03
Guaranteed Investment Contracts	11,661,802	0.59
Total Other Investments	<u>260,593,774</u>	
Total Investments	<u>\$1,978,778,004</u>	<u>100.00%</u>

Note: This schedule includes all plan assets including the assets of the Paid Up Benefit Reserve and the Contingency Reserve

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY SCHEDULE OF FEES AND COMMISSIONS
For the Year Ended June 30, 2005

	<u>Assets Under Management</u>	<u>Fees</u>
Investment Managers' Fees		
Domestic equity	\$793,623,309	\$3,401,998
International equity	280,838,805	1,743,033
Fixed income	643,634,924	503,906
Real estate	169,226,901	553,407
Securities lending		166,938
Total Investment Managers' Fees		<u><u>\$6,369,282</u></u>
Other Investment Service Fees:		
Custodial fees		\$215,439
Investment advisor fees		238,750
Total Other Investment Service Fees		<u><u>\$454,189</u></u>

Brokerage Fees

Broker's fees on investment transactions for the year ended June 30, 2005 amounted to \$1,388,405. Brokerage firms receiving more than \$7,500 in fees are listed below.

<u>Brokerage Firms</u>	<u>Fees Paid</u>	<u>Brokerage Firms</u>	<u>Fees Paid</u>
Merrill Lynch	\$193,142	Goldman Sachs	\$23,789
Credit Lyonnais Securities, Inc.	93,310	Bear Stearns & Co Inc.	22,154
Percival Financial	71,959	BOE Securities	22,085
Citigroup GBL Markets	70,868	Alpha Management, Inc.	21,579
Pershing Securities	64,655	Boston Institutional Services, Inc.	19,577
Deutsche Banc Alex Brown Inc.	49,083	Investment Technology Groups	18,064
UBS	44,908	Jefferies & Company	17,144
Morgan Stanley & Co., Inc.	36,006	Needham & Company	16,836
Morgan J P Securities Inc.	34,816	DBS Securities	13,771
Lehman Bros Inc.	31,750	Rosenblatt Securities	12,174
Legg Mason Wood Walker Inc.	31,736	Wachovia Securities LLC	10,020
Instinet	31,193	ING Baring Securities, LTD	9,960
Salomon Brothers, LTD	29,284	Bernstein Sanford & Company	9,567
Dean Witter Reynolds Inc.	29,001	Investec Securities	8,345
National Financial Services Corp	26,696	Invemed Associates Inc.	7,734
Credit Suisse First Boston	24,150	Union Bank Switzerland Securities	7,653

Brokerage Commissions

Because of the highly visible nature of the Fire and Police Employees' Retirement System, it is important that the investment managers have best execution as their primary objective. While the managers are permitted to direct a portion of brokerage commissions for research, it is expected that each manager will receive commission discounts which are commensurate with current discount practice. Investment managers are expected to give preference whenever possible to brokerage firms with offices located in the Baltimore Metropolitan Area. However, the managers are expected to negotiate commission rates, and local brokerage firms should be given preference only when commission rates and transaction services are competitive with those available from other firms.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT PROFESSIONALS

DOMESTIC EQUITY MANAGERS

Large Cap

INTECH
E. Robert Fernholz
Palm Beach Gardens, Florida

Legg Mason Capital Management
Kyle P. Legg
Baltimore, Maryland

Mellon Capital Management
Earl Kleckner
San Francisco, California

TCW Asset Management
Steve Burlingame
New York, New York

The Edgar Lomax Company
Randall Eley
Springfield, Virginia

Small and Mid Cap

Pinnacle Associates, Ltd.
Peter Marron
New York, New York

Rothschild Asset Management Inc
T. Radey Johnson
New York, New York

Hotchkis & Wiley Capital Management
Sheldon Lieberman
Los Angeles, California

INTERNATIONAL EQUITY MANAGERS

William Blair & Co.
George Greig
Chicago, Illinois

Lloyd George Management
Jacob Rees-Mogg
London, England

Causeway Capital Management, LLC
Sarah Ketterer
Los Angeles, California

ALTERNATIVE STRATEGIES

Union Bancaire Privée Asset Management, LLC
Mark Kenyon
New York, New York

Cadogan Management, LLC
Michael Waldron
New York, New York

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
INVESTMENT PROFESSIONALS

FIXED INCOME MANAGERS

Loomis Sayles & Company, L.P.
Clifton Rowe
Boston, Massachusetts

Utendahl Capital Management, L.P.
Tom Mandel
New York, New York

MacKay Shields
Michael Kimble
New York, New York

Mellon Capital Management
Susan Ellison
San Francisco, California

REAL ESTATE MANAGERS

Principal Global Investors
John Berg
De Moines, Iowa

LaSalle Investment Management, Inc.
James Hutchinson
Chicago, Illinois

Blackrock Realty
Jay K. Alexander
Morristown, New Jersey

VEF Advisors
James Ryan
Atlanta, Georgia

The RREEF Funds
Jon R. Thompson
Chicago, Illinois

ING Clarion
Stephen Hansen
New York, New York

VENTURE CAPITAL

Maryland Venture Capital Trust
Baltimore, Maryland

CASH MANAGEMENT

Mellon Bond Associates, LLP
Nancy Banker
Pittsburgh, Pennsylvania

SECURITIES LENDING

Mellon Global Securities Services
Stephen R. Crosby
Pittsburgh, Pennsylvania

GLOBAL CUSTODIAN

Mellon Global Securities Services
Arlene Sefcik
Pittsburgh, Pennsylvania

INVESTMENT ADVISOR

The Summit Strategies Group
Daniel Holmes
St. Louis, Missouri

Actuaria Section



MERCER

Human Resource Consulting

December 14, 2005

Board of Trustees
Fire & Police Employees' Retirement System
Baltimore, Maryland

Honorable Members of the Board of Trustees:

Mercer Human Resource Consulting performs an actuarial valuation of the System at the end of each fiscal year. The most recent valuation was as of June 30, 2005, and it determined the employer's contribution for the plan year beginning July 1, 2005. Since the contribution is always accrued, the contribution plus interest will be made during the 2007 fiscal year.

The funding method used in the annual valuation is the Projected Unit Credit Cost method. This method will tend to produce level contributions as a percentage of covered payroll as long as the average age of the active members does not change. If the average age were to increase because of a decline in the number of new members being added to the plan, the Normal Cost portion of the employer's contribution would begin to increase as a percentage of covered payroll. The employer's contribution is increased or decreased to amortize over 20 years the difference between the actuarial value of assets and the Actuarial Accrued Liability. For the plan years beginning July 1, 1997 through July 1, 2001, this amortization decreased the employer's contribution. Since the plan year beginning July 1, 2002, this amortization increased the employer's contribution. The employer's contribution may also be decreased based on the excess of the market value of assets over the actuarial value of assets. This decrease will not occur for the plan year beginning July 1, 2005 and is unlikely to occur for several years.

Two types of events tend to cause some volatility in the contribution rates. These events are favorable/unfavorable investment return resulting in contribution reductions/increases and benefit improvements resulting in contribution increases.

The valuation is based on actuarial assumptions recommended by the actuary and approved by the Board of Trustees. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board Statement No. 25. Some actuarial assumptions are incorporated into Article 22 of the Baltimore City Code. The plan provisions require a periodic review of the assumptions by the Actuary. Changes in assumptions based on a periodic review of 2002-2005 experience were incorporated in the June 30, 2005 valuation. The assumptions represent a reasonable estimate of the anticipated experience of the System.

The valuation is based on a closed group of members; no new hires are assumed. The actuarial value of assets equals the market value adjusted for investment performance above or below the assumed rate of return. Membership data used for the actuarial valuation is supplied by the Retirement System. The data is examined by the actuary for reasonableness and consistency with the prior year's data. Asset information is provided on an unaudited basis.

All supporting schedules in the Actuarial Section and the Schedule of Funding Progress and the Schedule of Employer Contributions in the Financial Section have been prepared by the System and reviewed by me. I meet the qualification standards of the American Academy of Actuaries to render the actuarial opinion contained in this letter and the actuarial valuation report.

Respectfully submitted,


Douglas L. Kowe, FSA, MAAA, EA

ACTUARIAL FUNDING METHOD AND ACTUARIAL ASSUMPTIONS

Actuarial Funding Method

Method of Funding:
(Effective 6/30/1988)

The Projected Unit Credit Cost Method is used. Normal Cost is calculated as that portion of projected pension cost allocated to the participant's upcoming year of service less the amount of anticipated employee contributions. No new entrants are assumed. This is a closed group valuation.

Effective July 1, 1992, the current Unfunded Actuarial Liability is open-ended and amortized over 20 years. Gains and losses are reflected in the Unfunded Actuarial Liability.

Asset Valuation:
(Effective 6/30/1982)

The actuarial value of assets is equal to the market value, adjusted for interest surpluses and deficits over a five-year period, and less (plus) any accumulated excess (deficit) earnings. Effective 6/30/05, the accumulated deficit will be recognized in investment earnings over 5 years.

Earnings above or below the assumed return are released into the actuarial value of assets at the rate of 20% per year. This moderates fluctuations in contributions considerably.

Post Retirement Benefit Increases:
(Effective 6/30/1983)

The liability for these increases is assumed to be equal to the assets of the Paid Up Benefit Reserve plus the Contingency Reserve. If the actuary feels that these funds are insufficient, additional reserves will be calculated. If the actuary believes that the assets in the Paid Up Benefit Reserve and Contingency Reserve are more than the liabilities for post retirement benefits, the excess is not used to reduce any other liability but simply held as excess funds to back up future post retirement benefit payments.

Actuarial Assumptions

Investment return:
(Effective 6/30/1995)

8.25% compounded annually until retirement and 6.8% after retirement.

According to Article 22 of the Baltimore City Code, regular member accumulations earn 5.50% and DROP account accumulations earn 8.25%.

Expenses:

Expenses are paid from the fund. It is assumed that the fund will have sufficient earnings to pay these expenses and meet the interest assumption.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ACTUARIAL ASSUMPTIONS

Salary Scale:
(Effective 6/30/2005)

Salary increases are assumed to vary with age. Sample rates are as follows:

<u>Age</u>	<u>Annual Rate of Salary Increase</u>
20	.0850
25	.0725
30	.0650
35	.0550
40	.0475
45	.0475
50	.0450
55	.0400
60	.0400
64	.0400

The interest rate and salary assumptions are based on an inflation rate of 3.0%.

Additional Assumptions:
(Effective 7/1/1989)

Spouse Age: Husband assumed 4 years older than wife
Remarriage Rates: None
Children: Joint and survivor benefits loaded 4% for children
Percent Married: Males 75%, females 75%

Retirees and Beneficiaries

**Mortality Rates for
Retired and Disabled
Members and Beneficiaries**
(Effective 6/30/2005)

<u>Age</u>	<u>Service Members</u>		<u>Disabled Members</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
55	0.005237	0.002567	0.007168	0.003267
60	0.009296	0.004894	0.011857	0.005459
65	0.016771	0.009522	0.021219	0.009337
70	0.027519	0.015138	0.034532	0.018033
75	0.042934	0.025393	0.057392	0.032959
80	0.070133	0.043875	0.090670	0.054555

The mortality rates for service members are based on the 1994 Uninsured Pensioners Generational Mortality table increased by a 5-year projection in 2005. The GAM 1983 table is set forward four years and reduced by 10 percent for disabled members.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ACTUARIAL ASSUMPTIONS AND METHODS

Mortality and Morbidity Rates for Active Members:
Sample rates for all mortality and morbidity are as follows (Effective 6/30/2005):

<u>Age</u>	<u>Withdrawal¹</u>	<u>Non-Line-of-Duty Disability</u>	<u>Line-of-Duty Disability</u>	<u>Non-Line-of-Duty Death</u>	<u>Line-of-Duty Death²</u>
20	0.070083	0.000228	0.000691	0.000283	0.000076
25	0.054430	0.000232	0.000910	0.000287	0.000119
30	0.031211	0.000594	0.001433	0.000389	0.000164
35	0.018943	0.001914	0.002816	0.000591	0.000253
40	0.010828	0.001840	0.003990	0.000893	0.000385
45	0.003026	0.002651	0.004515	0.002060	0.000433
50	0.037573	0.002800	0.004600	0.003185	0.000372
55	0.048033	0.001446	0.004664	0.004404	0.000300
60	0.084338	0.001162	0.006208	0.006011	0.000159
64	0.100843	0.000812	0.006353	0.006414	0.000062

All probabilities shown on this page were based on the June 30, 2005 actuarial experience study.

¹Withdrawal decrements are reduced to zero when participant is eligible to retire.

²Benefit loaded 0.50% for post-disability line-of-duty death benefit.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ACTUARIAL ASSUMPTIONS RETIREMENT RATES

The retirement rates are assumed to be affected by whether or not a member participates in DROP. Members that do not join DROP are assumed to have retirement rates that vary by service until age 50. Thereafter, they are assumed to vary solely by age. It is assumed that 90% of members will elect to participate in DROP. Retirement rates are as follows and reflect possibilities of retirement with and without DROP rates (Effective 6/30/2005):

Non-DROP Rates Until Age 50 (with 90% reduction)		Non-DROP Rates After Age 50 (with 90% reduction)		Full DROP Rates	
<u>Years of Service</u>	<u>Non-DROP Retirement Rates</u>	<u>Age</u>	<u>Non-DROP Retirement Rates</u>	<u>Years After Electing DROP</u>	<u>DROP Retirement Rates</u>
20	4.00%	50	1.27 %	1	4.00 %
21	0.76	51	0.93	2	3.00
22	0.76	52	0.93	3	10.00
23	0.97	53	0.94	4	4.00
24	1.13	54	1.17	4.5	0.00
25 or more	1.13	55	1.46	5	35.00
		56	1.38	6	18.00
		57	1.38	7+	40.00
		58	1.38		
		59	1.39		
		60	2.12		
		61	1.72		
		62	2.55		
		63	2.55		
		64	3.23		
		65	100.00		

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation Date</u> <u>June 30</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase In Average Pay</u>
	4,740	\$173,825,553	\$36,672	-- %
	4,802	76,872,896	36,833	0.4
	4,835	185,816,956	38,432	4.3
	4,635	183,068,111	39,497	2.8
2000	4,667	191,003,156	40,926	3.6
2001	4,871	209,527,825	43,015	5.1
2002	4,875	227,785,032	46,725	8.6
	4,875	245,711,363	50,402	7.9
	4,778	241,245,198	50,491	0.2
	4,690	244,814,891	52,199	3.4

Fire and Police Employees' Retirement System
City of Baltimore, Maryland

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ended <u>June 30</u>	<u>Added to Rolls</u>		<u>Removed from Rolls</u>		<u>Rolls - End of Year</u>		% Increase in Annual <u>Allowances</u>	Average Annual <u>Allowances</u>
	<u>No.</u>	<u>Annual Allowances*</u>	<u>No.</u>	<u>Annual Allowances</u>	<u>No.</u>	<u>Annual Allowances</u>		
1996	293	\$ 9,381,075	121	\$1,686,739	4,595	\$ 81,207,077	-- %	\$17,673
1997	184	7,663,213	139	,860,978	4,640	87,009,312	7.	18,752
1998	154	9,740,814	139	2,310,306	4,655	94,439,820	8.5	20,288
1999	467	16,829,266	158	2,775,264	4,964	108,493,822	14.9	21,856
2000	255	7,315,414	141	2,406,524	5,078	113,402,712	4.5	22,332
2001	202	5,744,867	151	2,706,188	5,129	116,441,391	2.7	22,703
2002	211	5,317,804	168	2,988,395	5,172	118,770,800	2.0	22,964
2003	241	7,127,894	160	3,209,861	5,253	122,688,833	3.3	23,356
2004	345	11,813,675	168	3,261,435	5,430	131,241,073	7.0	24,170
2005	314	14,678,942	166	3,213,125	5,578	142,706,890	8.7	25,584

* Includes post-retirement adjustments.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SOLVENCY TEST

The Retirement System's funding objective is to meet long-term benefit promises through contributions which spread the cost over the employees' service base. If the contributions to the System are soundly executed, the System will pay all promised benefits when due - the ultimate test of financial soundness.

A short-term solvency test is one means of examining a system's progress under its funding program. In a short-term solvency test, the plan's present assets are compared with: 1) Active member contributions on deposit; 2) The liabilities for future benefits to present retired lives; and 3) The liabilities for service already rendered by active members. In a system which has been following the discipline of allocating cost on a consistent basis to valuation years, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. Generally, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is rare.

The schedule below illustrates the System's history of liability 3.

Aggregate Accrued Liabilities For							
Valuation Date June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
1996	\$140,167,915	935,396,963	\$471,787,812	\$1,546,336,351	100%	100%	99.8%
1997	151,210,794	1,018,490,214	549,516,262	1,723,838,021	100	100	100.8
1998	165,570,101	1,105,270,486	579,699,385	1,913,979,734	100	100	110.9
1999	158,048,531	1,223,035,179	538,204,783	1,974,471,134	100	100	110.3
2000	164,329,116	1,258,254,621	606,984,750	2,078,331,195	100	100	108.0
2001	175,086,388	1,281,344,804	640,371,338	2,098,740,595	100	100	100.3
2002	187,770,301	1,308,031,625	677,386,504	2,127,393,333	100	100	93.2
2003	197,937,017	1,368,638,818	720,297,200	2,205,205,652	100	100	88.7
2004	197,462,032	1,502,541,087	695,519,580	2,320,027,717	100	100	89.1
2005	200,799,034	1,653,513,286	706,672,475	2,456,565,270	100	100	85.2

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
ANALYSIS OF FINANCIAL EXPERIENCE

**Gains and Losses in Accrued Liabilities During Fiscal Year
Resulting from Differences Between Assumed Experience and Actual Experience**

<u>Type of Activity</u>	<u>Gain or (Loss) for Fiscal Year 2004</u>	<u>Gain or (Loss) for Fiscal Year 2005</u>
Age and Service Retirements If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher pays, a loss.	\$(11,083,587)	\$(1,612,530)
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(5,674,129)	(11,359,179)
Death-in-Service Benefits If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(64,676)	522,851
Withdrawal From Employment If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	(151,054)	100,847
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	21,530,836	(821,970)
Investment Income If there is greater investment income than assumed, there is a gain. If less, a loss.	12,403,666	6,456,368
Death After Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	(710,281)	(283,801)
New Entrants New entrants create a loss because they were not assumed in the previous evaluation.	(1,852,146)	(1,892,115)
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, valuation methods, etc.	(9,962,017)	5,871,030
Gain or (Loss) During Year From Financial Experience	<u>\$ 4,436,612</u>	<u>\$ (2,018,499)</u>

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY OF PLAN PROVISIONS
For the Year Ended June 30, 2005

EFFECTIVE DATE:

The System was established July 1, 1962, and has been amended periodically.

ELIGIBILITY:

Any uniformed officer of the Police or Fire Departments shall become a member as a condition of employment.

MEMBER CONTRIBUTIONS:

Members contribute at the rate of 6% of regular compensation for their entire period of service. Contributions are treated as made by the employer and are made to the system pre-tax according to Section 414(h)(2) of the Internal Revenue Code.

Members of the Employees' Retirement System who transferred to this System after July 1, 1967, and did not make up the contributions which would have been made from July 1, 1962, are to have their retirement allowance reduced by the actuarial equivalent of the deficient contributions with interest.

4. COMPENSATION:

- (A) **Earnable Compensation** is all usual compensation including lodging, subsistence, etc. When compensation is not paid in money, the Board of Trustees shall fix the value of that part of compensation.
- (B) **Average Final Compensation (AFC)** shall mean the highest average annual compensation for eighteen consecutive months of service during which the member's earnable compensation was highest.

5. MILITARY SERVICE CREDIT:

- (A) **Military Service Prior to Employment:** A maximum of three years service credit is granted provided the member has acquired:
 - (1) 10 years of service and attained the age of 50; or
 - (2) 20 years of service, regardless of age.
- (B) **Military Service Within Employment:** Upon retirement or death, any member who had a break in employment due to military duty, shall receive service credit for the period of absence as provided by the Veterans' Reemployment Rights Act.

6. SERVICE RETIREMENT:

- (A) **Eligibility Requirements:**
 - (1) For members as of June 30, 2003
 - (a) age 50, regardless of years of service credit; or
 - (b) regardless of age, 20 years of service credit.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY OF PLAN PROVISIONS
For the Year Ended June 30, 2005

- (2) For employees who become members on or after July 1, 2003:
 - (a) age 50, with at least 10 years of service as a contributing member of this system; or
 - (b) regardless of age, 20 years of service and at least 10 years as a contributing member of this system.
- (B) Benefit Amount: The sum of:
 - (1) an annuity of the actuarial equivalent of the member's accumulated contributions and interest; plus
 - (2) a pension, which together with the annuity, shall be equal to 2.5% of the member's average final compensation for each of the first 20 years of service; plus
 - (3) 2% of the member's average final compensation for each year of service in excess of 20 years.

NON-LINE-OF-DUTY DISABILITY RETIREMENT:

- (A) Eligibility Requirements: Five years of membership service and determined by a hearing examiner to be mentally or physically incapacitated for the performance of duty and that such incapacity is likely to be permanent.
- (B) Benefit Amount: The sum of:
 - (1) an annuity of the actuarial equivalent of the member's accumulated contributions; plus
 - (2) a pension which together with the annuity, shall equal 2.5% of the member's average final compensation for each year of service up to 20 years; plus
 - (3) 2.0% of the member's average final compensation for each year of service in excess of 20 years.
 - (4) The total of this benefit shall not be less than 25% of average final compensation.
- (C) Offset to Retirement Allowance: This allowance is offset by workers' compensation, if member entered the System after July 1, 1970.

8. LINE-OF-DUTY DISABILITY RETIREMENT:

- (A) Eligibility Requirements: Immediate eligibility upon membership in the System and determined by a hearing examiner to be incapacitated for the further performance of duty, and the incapacity resulted from an injury occurring while in the actual performance of such duty without willful negligence.

Should such disability further result in extensive brain damage causing total incapacity or in the loss of or the use of both hands or both arms or both feet or both legs or both eyes or any two thereof, an additional pension will be payable.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY OF PLAN PROVISIONS
For the Year Ended June 30, 2005

(B) Benefit Amount:

(1) The sum of:

- (a)** an annuity of the actuarial equivalent of the member's accumulated contributions; plus
- (b)** a pension equal to 66.667% of the member's average final compensation.

- (2)** If the member's disability results in extensive brain damage causing total incapacity or in the loss of or the use of both hands or both arms or both feet or both legs or both eyes or any two thereof, an additional pension is paid so that the retirement allowance is equal to 100% of compensation at the time of retirement.

Offset to Retirement Allowance: This allowance is offset by workers' compensation, if member entered the System after July 1, 1970.

9. TERMINATION OF EMPLOYMENT:

- (A) Eligibility Requirements:** Removed from a position without fault after 15 years of service for an immediate benefit; otherwise a refund of accumulated contributions and interest if not eligible for any other benefits.
- (B) Benefit Amount:** Determined the same as if the member had retired on a non-line-of-duty disability retirement allowance.

10. MAXIMUM ALLOWANCE AND OPTIONAL METHODS OF RECEIVING BENEFIT PAYMENTS:

- (A) Maximum Allowance:** Upon death, 50% of the retiree's maximum allowance is paid to the unmarried spouse provided they had been married for one year prior to retirement or five years beginning before or after retirement. If there is no qualified spouse, the allowance will be paid to any minor and unmarried children until the last child marries, dies, or attains age 18 (age 22 if a full-time student). All other options will result in a lesser amount paid

- (B) Reserve Guarantee Option:** Upon retiree's death, a cash refund to retiree's designated beneficiary based on present value of allowance at retirement less payments made.

100% Joint and Survivor Option: Upon retiree's death, 100% of retiree's allowance to continue to designated beneficiary.

- (D) 50% Joint and Survivor Option:** Upon retiree's death, 50% of retiree's allowance to continue to designated beneficiary.

- (E) Specific Benefit Option:** Upon the retiree's death and subject to the approval of the Board of Trustees, the member's designated beneficiary will receive:

- (1)** a specific lump sum amount; or
- (2)** a specific periodical allowance.

These options are available for service, termination, non-line-of-duty disability, and line-of-duty disability retirement. The option and/or beneficiary may be changed within thirty days after retirement.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY OF PLAN PROVISIONS
For the Year Ended June 30, 2005

11 NON-LINE-OF-DUTY DEATH BENEFITS:

- (A) **Eligibility Requirements:** Member who dies while actively employed but whose death does not qualify as a line-of-duty death.
- (B) **Benefit Amount:**
- (1) **Lump-sum benefit:** The member's accumulated contributions and if the member has one or more years of service, 50% of the greater of the member's current annual earnable compensation or average final compensation shall be payable to the member's designated beneficiary or as specified by the plan provisions.
 - (2) **25% plus benefit:** In lieu of (1) above, if the member had at least two years of continuous service, an annual sum equal to 25% of the member's regular gross compensation, plus 1.5% of the member's regular gross compensation for each year of service in excess of two years. This benefit is not to exceed 50% of the member's regular gross compensation. This benefit shall be payable to:
 - (a) the member's spouse to continue for life or remarriage; or
 - (b) the member's minor children equally until that child attains age 18 (age 22 if a full-time student).
 - (3) **100% Survivorship benefit:** If the member was eligible for a service retirement and the member's designated beneficiary is his spouse to whom he was married for at least one year before the date of his death, or his surviving parent, such beneficiary may elect to receive in lieu of (1) and (2) above, an allowance equal to the amount that would have been paid under the 100% Joint and Survivor Option.

Offset to Retirement Allowance: This allowance is offset by workers' compensation, if member entered the System after July 1, 1970.

12 LINE-OF-DUTY DEATH BENEFITS:

- (A) **Eligibility Requirements**
- (1) Immediate eligibility upon membership in the System and determined by a hearing examiner that the member's death arose out of and in the course of the performance of duty, without willful negligence on the part of the member; or
 - (2) A member has been granted a line-of-duty disability and dies within five years as a result of the last injury that resulted in a line-of-duty disability retirement.
- Benefit Amount:** This benefit will consist of:
- (1) a refund of the member's accumulated contributions and interest to the member's designated beneficiary or as specified by the plan provisions, and
 - (2) a pension of 100% of member's current compensation to be paid to:
 - (i) The member's surviving spouse to continue for life; or
 - (ii) If no surviving spouse or the spouse dies, then equally to the member's minor child or children until that child attains age 18 (age 22 if a full-time student); or

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
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For the Year Ended June 30, 2005

- (iii) If no surviving spouse or minor child or children, then to the member's surviving dependent parents, to continue for life.

Offset to Retirement Allowance: This allowance is offset by workers' compensation, if member entered the System after July 1, 1970.

13 DEFERRED RETIREMENT OPTION PLAN (DROP):

(A) Eligibility:

- (1) for members as of June 30, 2003, a member must have acquired 20 or more years of service, regardless of age.
- (2) for employees who become members on or after July 1, 2003, a member must acquire 20 or more years of service with at least 10 years of service as a contributing member of this system and regardless of age.
- (3) an application must be filed not less than 30 days, nor more than 90 days, before the date the DROP participation will start.
- (4) a member who terminates employment immediately becomes ineligible to participate or to continue to participate in the DROP.

Term of DROP:

The maximum period of time that a member can participate in the DROP is a single term of three consecutive years, beginning on the member's DROP start date.

(C) No Service Credit While in DROP:

A DROP participant remains a member of the F&P, but is not credited with F&P service.

Except for Intermediate DROP Retirement Benefits, compensation during the member's DROP participation period shall be disregarded in calculating the member's AFC.

(D) Ending DROP Participation:

- (1) If a member terminates service anytime during or at the end of the three-year DROP period, his participation in the DROP ends automatically.
- (2) A member may elect to end his participation in the DROP on either the first or second anniversary of his DROP participation start date. The election must be made by filing an application with the System at least 30 days in advance of the first or second anniversary of the member's DROP start date.
- (3) A member who continues employment after terminating participation in the DROP shall resume earning service credit in the F&P.
- (4) Once a member terminates participation in the DROP, the member cannot again participate in the DROP at a later date.

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- (5) If a member retires at the end of his participation in the DROP, begins receiving DROP retirement benefits, and is then re-employed in a position covered by the F&P, all DROP retirement benefit payments will be suspended until the member's later retirement.

(E) DROP Account: The member's DROP account shall consist of:

- (1) For each full year of a member's DROP participation, an amount equal to the annual service retirement allowance the member would have received had the member retired from service and begun receiving his maximum retirement allowance;
- (2) For each partial year of a member's DROP participation, an amount equal to a member's pro-rated annual service retirement allowance;
- (3) A separate sub-account consisting of the member's regular mandatory contributions; and
- (4) Interest compounded annually at 8.25% until the member terminates from service.

(F) DROP Benefits:

(1) Basic DROP Benefit

A member who terminates service during, or at the conclusion of a DROP period, will receive:

- (a) the service retirement benefit the member would have received if the member had retired on the date his DROP participation began; and
- (b) the balance in the member's DROP account.

(2) Intermediate DROP Retirement Benefit:

A member who continues working following the conclusion of the DROP period and terminates service within 18 months after the DROP period has ended, will receive:

- (a) all benefits under the Basic DROP Benefit;
- (b) 3.5% of the member's AFC for each year of service credit following DROP (taking into account the member's compensation while in DROP), not to exceed 18 months; and
- (c) 2% of the member's AFC for each year of service not already included in the calculation of the member's retirement benefit under (a) and (b).

(3) Full DROP Retirement Benefit:

A member who continues working following participation in the DROP and terminates service 18 or more months after the DROP period has ended, will receive:

- (a) the full service retirement as of the member's actual date of retirement, excluding the member's time while in the DROP; plus
- (b) .5% of the member's AFC for each year of service credit earned by employment following DROP,

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY OF PLAN PROVISIONS
For the Year Ended June 30, 2005

not to exceed four years; and

- (c) the balance in the member's DROP account

(4) Non-Line-of-Duty Disability:

- (a) Any member who retires on account of a non-line-of-duty disability during or at the end of his DROP period will receive the Basic DROP Benefit.
- (b) Any member who retires on account of a non-line-of-duty disability within 18 months after the end of his DROP period will receive the Intermediate DROP Benefit.
- (c) Any member who retires on account of a non-line-of-duty disability 18 or more months after the end of his DROP period will receive the Full DROP Benefit.

(5) Line-of-Duty Disability Benefit:

Any member who retires on account of a line-of-duty disability during or after his DROP period will receive the line-of-duty disability benefit consisting of: an annuity of the member's accumulated contributions and interest, plus 66.667% of current AFC. This benefit will be paid instead of any DROP retirement benefits, and the member will not receive the balance in his DROP account.

(6) Non-Line-of-Duty Death Benefit:

The non-line-of-duty death benefit payable to a member who dies during or after his/her participation in DROP will equal the regular non-line-of-duty death benefit, plus the balance of the member's DROP account provided that if the member's surviving parent or spouse elects to receive a 100% Joint and Survivor death benefit, the service allowance portion of the death benefit should be calculated by using the DROP retirement benefit which would have been payable to the member as if the member had retired at such time.

- (a) If a beneficiary of a deceased DROP participant elects to receive the lump sum non-line-of-duty death benefits, such beneficiary must receive the balance of the deceased member's DROP account in a lump sum payment; or
- (b) If a spouse or surviving parent of a deceased DROP member elects to receive the non-line-of-duty death retirement benefit, such beneficiary may elect to receive the balance of the deceased member's DROP account in a lump sum payment or in periodic payments.

(7) Line-of-Duty Death Benefit

The line-of-duty death benefit payable at the death of a member who dies during or after his participation in the DROP will equal either of the following as elected by the member's beneficiary:

- (a) the regular non-line-of-duty death benefit including DROP benefits as described above; or
- (b) the line-of-duty death benefits payable as though the member had never participated in the DROP.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SUMMARY OF PLAN PROVISIONS
For the Year Ended June 30, 2005

(8) Benefits for Re-employed DROP Participants:

- (a)** If a member receiving DROP retirement benefits is re-employed in a position covered by the F&P, and then later receives a service or disability retirement, the member will resume receiving the DROP benefits which had been suspended at the time of re-employment. Additionally, the member will receive 2% of the member's AFC for each year of service credit earned during the re-employment period.
- (b)** If a member receiving DROP retirement benefits is re-employed in a position covered by the F&P, and then dies during employment, the member's beneficiary would receive a non-line-of-duty death benefit. This re-employment death benefit would also apply to line-of-duty deaths.

(G) DROP Post-Retirement Benefit Increases:

- (1)** A member who retires during or at the end of a DROP participation period, will have that DROP participation period counted toward eligibility for post-retirement benefit increases.
- (2)** A member who continues working at the end of a DROP participation period will not have that DROP participation period counted toward the eligibility requirement for post-retirement increases.
- (3)** Post-retirement benefit increases for former DROP participants are applied prospectively.

(H) Form of Payment of Benefits from DROP Account:

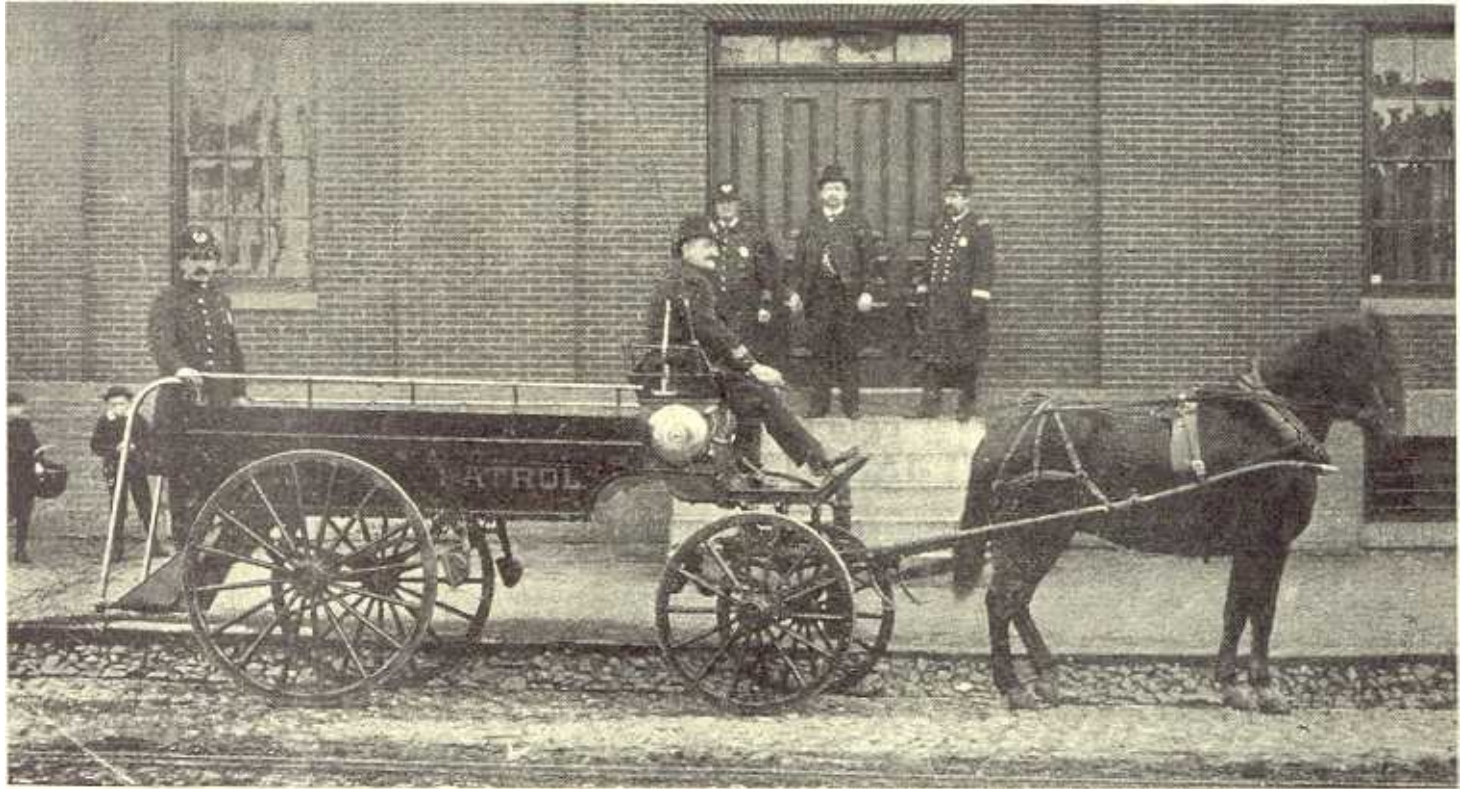
A member (or a beneficiary after the death of the member in service) can choose to receive the total balance of the DROP account as:

- (1)** one lump sum after the member's retirement; or
- (2)** periodic payments in the same form as the member has elected to receive his retirement benefit.

14. POST-RETIREMENT BENEFIT INCREASES:

Benefit increases are automatically provided to certain retirees and beneficiaries when investment performance, determined as of each June 30, exceeds 7.5%. Only retirees and their beneficiaries, who have been receiving periodic benefit payments for two or more years as of the June 30 determination date, are eligible for the increase. The actuarially determined increase is payable as equal percentage increases commencing the January 1 following the June 30 investment performance determination date.

Statistica Section



Fire and Police Employees' Retirement System
City of Baltimore, Maryland
REVENUES BY SOURCE

Fiscal Year	Net Investment Income	Employer Contributions		Member Contributions	Total
		Amount	% of Covered Payroll		
1996	\$ 225,015,384	\$19,009,746	10.9%	\$10,749,891	\$ 254,775,111
	320,410,802	9,305,246	5.3	6,800,174	336,516,222
	361,140,063	13,830,605	7.4	7,428,959	382,399,627
	200,443,433	268,139	0.	8,381,576	209,093,148
2000	154,616,410	235,272	0.1	9,470,800	164,322,482
2001	(90,727,720)	217,340	0.1	,526,631	(78,983,749)
	(115,490, 1)	252,220	0.1	14,241,040	(100,996,851)
2003	44,637,303	34,678,878	14.	15,159,112	94,475,293
2004	222,720,518	42,699,166	17.7	15,421,154	280,840,838
	218,687,126	48,666,701	19.9	15,359,931	282,713,758

Note: Employer contributions were made in accordance with actuarially determined contribution requirements.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
EXPENSES BY TYPE

<u>Fiscal Year</u>	<u>Retirement Benefits</u>	<u>DROP Payments</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total</u>
1996	\$ 78,142,664		\$ 964,535	\$1,220,513	\$ 80,327,712
	87,187,898		858,037	,287,070	89,333,005
	92,325,093	\$ 1,346,863	849,414	1,367,835	94,542,342
	99,141,285	25,901,332	877,485	,476,168	127,396,270
	115,494,917	12,934,599	1,078,875	1,087,798	130,596,189
	116,348,031	11,148,700	804,084	,284,702	129,585,517
	118,678,646	7,545,984	800,898	1,520,942	128,546,470
	120,568,623	12,147,757	,059,150	,562,487	135,338,017
	127,436,253	24,494,758	1,093,504	1,905,163	154,929,678
2005	136,570,935	22,253,341	,403,449	2,143,390	162,371,115

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
SCHEDULE OF ACTIVE MEMBERS BY YEARS OF SERVICE

<u>Years of Credited Service</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
0-4	,127	,151	,022	947	968	,124	,153	,179	,114	1,084
5-9	944	881	979	,101	,048	,079	,034	933	912	885
10-14	664	730	767	757	856	820	777	861	991	935
15-19	685	739	803	716	623	606	640	679	696	773
20-24	578	495	367	366	447	584	642	668	581	507
25-29	530	533	572	504	444	380	329	244	233	279
30+	<u>212</u>	<u>273</u>	<u>325</u>	<u>244</u>	<u>281</u>	<u>278</u>	<u>300</u>	<u>311</u>	<u>251</u>	<u>227</u>
Total Members	<u>4,740</u>	<u>4,802</u>	<u>4,835</u>	<u>4,635</u>	<u>4,667</u>	<u>4,871</u>	<u>4,875</u>	<u>4,875</u>	<u>4,778</u>	<u>4,690</u>
Average Service Credit	<u>13.16</u>	<u>13.35</u>	<u>13.78</u>	<u>13.13</u>	<u>12.94</u>	<u>12.6</u>	<u>12.81</u>	<u>12.88</u>	<u>12.56</u>	<u>12.48</u>
Average Age	<u>38.16</u>	<u>38.32</u>	<u>38.53</u>	<u>38.99</u>	<u>38.42</u>	<u>38.37</u>	<u>38.26</u>	<u>38.75</u>	<u>38.55</u>	<u>38.66</u>

Fire and Police Employees' Retirement System

City of Baltimore, Maryland

SCHEDULE OF CURRENT ACTIVE MEMBERS BY YEARS OF SERVICE AND DEPARTMENT

SCHEDULE OF CURRENT ACTIVE DROP MEMBERS BY YEARS OF SERVICE AND DEPARTMENT

For the Year Ended June 30, 2005

Schedule of Current Active Members By Years of Service and Department

<u>Years of Credited Service</u>	<u>Police Department</u>	<u>Fire Department</u>	<u>School Crossing Guards</u>	<u>Airport Employees</u>	<u>Total</u>
0-4	665	419			1,084
5-9	663	222			885
10-14	716	219			935
15-19	429	331		13	773
20-24	320	181		6	507
25-29	155	120		4	279
30+	<u>99</u>	<u>120</u>	<u>6</u>	<u>2</u>	<u>227</u>
Total Members	<u>3,047</u>	<u>1,612</u>	<u>6</u>	<u>25</u>	<u>4,690</u>

Schedule of Current Active DROP Members By Years of Service and Department

<u>Years of Credited Service</u>	<u>Police Department</u>	<u>Fire Department</u>	<u>School Crossing Guards</u>	<u>Airport Employees</u>	<u>Total</u>
20-24	255	142		4	401
25-29	150	121		4	275
30+	<u>99</u>	<u>119</u>	<u>1</u>	<u>2</u>	<u>221</u>
Total DROP Members	<u>504</u>		<u>1</u>	<u>10</u>	

Fire and Police Employees' Retirement System

City of Baltimore, Maryland

SCHEDULE OF CURRENT ACTIVE DROP MEMBERS BY FISCAL YEAR OF DROP ENTRY AND DEPARTMENT

<u>Year of DROP Entry</u>	<u>Police Department</u>	<u>Fire Department</u>	<u>School Crossing Guards</u>	<u>Airport Employees</u>	<u>Total</u>
7/1/96 - 6/30/97	106	126		2	234
7/1/97 - 6/30/98	13	7			20
7/1/98 - 6/30/99	20	10			31
7/1/99 - 6/30/00	50	55		3	108
7/1/00 - 6/30/01	78	44		1	123
7/1/01 - 6/30/02	85	48			133
7/1/02 - 6/30/03	55	38			94
7/1/03 - 6/30/04	58	18		2	78
7/1/04 - 6/30/05	39	36		1	76
Total DROP Members	504	382	1	10	897

Fire and Police Employees' Retirement System

City of Baltimore, Maryland

SCHEDULE OF RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT

For the Year Ended June 30, 2005

		TYPE OF RETIREMENT*				
Number of Recipients		<u>0</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>9</u>
	<u>3</u>				<u>2</u>	
	21			5	16	
	43	<u>2</u>		8	31	
40-44	105	33	2	20	50	
45-49	232	173	1	15	43	
	433	366		18	48	
	829	723	1	25	80	
	675	552		39	84	
	587	468		46	71	2
	551	400		52	98	1
75-79	435	311		46	77	1
80-84	247	177		26	44	
85 and up	<u>101</u>	<u>81</u>		<u>7</u>	<u>13</u>	
	<u>4,262</u>	<u>3,286</u>	<u>6</u>	<u>308</u>	<u>657</u>	<u>5</u>
Average Annual Benefit	<u>\$29,285</u>	<u>\$30,897</u>	<u>\$24,386</u>	<u>\$16,345</u>	<u>\$27,189</u>	<u>\$48,336</u>

*Type of Retirement

0 - Normal retirement for age and service

2 - Discontinued service

3 - Non-line of duty disability

4 - Line of duty disability

9 - Line of duty disability, 100% of compensation

Fire and Police Employees' Retirement System

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SCHEDULE OF BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT

For Year Ended June 30, 2005

<u>Age</u>	<u>Number of Recipients</u>	<u>TYPE OF RETIREMENT*</u>								
		<u>0</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>6</u>	<u>7a</u>	<u>7b</u>	<u>8</u>	<u>9</u>
0-24	29	3		2	5		2	12	5	
25-29										
30-34	2							1		
35-39	3								2	
40-44	21	9			2	2			5	
45-49	34	18		3	4	4	3		2	
50-54	69	42		10	4	6	3		4	
55-59	106	52		10	9	12	10	3	9	
60-64	121	65		14	13	7	12		10	
65-69	145	61		23	34	15	5		7	
70-74	215	93		52	43	16	7		4	
75-79	219	101		39	52	14	3		10	
80-84	202	115		27	34	12	3		9	
85 and up	<u>150</u>	<u>89</u>		<u>22</u>	<u>24</u>	<u>11</u>	<u>2</u>		<u>2</u>	
Totals	<u>1,316</u>	<u>648</u>	<u>1</u>	<u>203</u>	<u>224</u>	<u>99</u>	<u>51</u>	<u>19</u>	<u>70</u>	<u>1</u>

Average Annual

Benefit

\$13,585

\$12,311

\$10,838

\$9,406

\$11,523

\$20,100

\$10,251

\$17,339

\$36,274

\$18,416

*Type of Retirement

0 - Normal retirement for age and service

2 - Discontinued service

3 - Non-line of duty disability

4 - Line of duty disability

6 - Non-line of duty death, member eligible for service retirement at death

7a - Non-line of duty death, 25% of compensation

7b - Non-line of duty death, 25% of compensation, plus 1.5% of compensation for each year in excess of two years

8 - Line of duty death

9-Line of duty disability, 100% of compensation

Fire and Police Employees' Retirement System

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SCHEDULE OF DROP RETIREES BY ATTAINED AGE AND TYPE OF RETIREMENT

SCHEDULE OF DROP BENEFICIARIES BY ATTAINED AGE AND TYPE OF RETIREMENT

For the Year Ended June 30, 2005

Schedule of DROP Retirees by Attained Age and Type of Retirement

<u>Age</u>	<u>Number of Recipients</u>	<u>TYPE OF RETIREMENT*</u>	
		<u>0</u>	<u>4</u>
40-44	15	15	
45-49	118	112	6
50-54	218	211	7
55-59	367	361	6
60-64	224	221	3
65-69	91	91	
70-74	<u>21</u>	<u>21</u>	
Totals	<u>1,054</u>	<u>1,032</u>	<u>22</u>
Average Annual Benefit	\$36,581	\$36,561	\$37,477

Schedule of DROP Beneficiaries by Attained Age and Type of Retirement

<u>Age</u>	<u>Number of Recipients</u>	<u>TYPE OF RETIREMENT*</u>					
		<u>0</u>	<u>3</u>	<u>4</u>	<u>6</u>	<u>7b</u>	<u>8</u>
40-44							
45-49	2						
50-54	11	7			2		1
55-59	13	6			4	1	1
60-64	4	4					
65-69	<u>3</u>				2		
Totals	<u>33</u>	<u>19</u>	<u>2</u>	<u>1</u>	<u>8</u>	<u>1</u>	
Average Annual Benefit	\$17,886	\$10,578	\$14,395	\$27,396	\$25,621	\$21,991	\$53,051

***Type of Retirement**

0 - Normal retirement for age and service

3 - Non-line-of-duty disability

4 - Line-of-duty disability, no DROP account paid.

6 - Non-line-of-duty death, member eligible for service retirement at death

7b - Non-line-of-duty death, 25% of compensation, plus 1.5% of compensation for each year in excess of two years.

8 - Line of duty death, no DROP account paid.

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
BENEFIT EXPENSES BY TYPE

Year Ending	Age and Service Benefits		Death Benefits			Disability Benefits			Total
						Retirees		Beneficiaries	
	Retirees	Beneficiaries	Duty	Non-Duty	Lump Sum	Duty	Non-Duty		
1996	\$ 51,346,286	\$3,021,563	\$1,534,933	\$2,187,834	\$42,139	\$12,575,111	\$5,001,487	\$2,433,311	\$ 78,142,664
1997	58,406,680	3,650,377	,659,802	2,350,053	215,029	13,648,544	5,158,716	2,956,734	88,045,935
1998	61,442,983	4,224,214	,745,775	2,484,204	357,147	14,697,630	5,401,437	3,318,566	93,671,956
1999	90,590,660	4,942,201	2,036,030	2,650,538	169,938	15,341,618	5,591,684	3,719,948	125,042,617
2000	90,685,753	5,667,627	2,208,325	2,818,393	637,708	16,325,621	5,888,643	4,197,446	128,429,516
2001	86,485,377	6,515,936	2,469,426	3,121,856	378,886	17,523,788	6,140,540	4,860,922	127,496,731
2002	88,370,371	6,641,581	2,367,554	2,835,013	14,338	16,031,594	5,462,832	4,401,347	126,224,630
2003	94,740,211	7,191,867	2,366,651	2,764,583	22,790	15,944,128	5,259,650	4,426,500	132,716,380
2004	12,012,174	7,250,029	2,365,946	2,847,450	251,077	16,124,695	5,019,237	6,060,403	151,931,01
2005	119,001,250	7,783,462	2,482,341	2,904,441	394,961	16,792,991	5,027,007	4,437,823	158,824,276

Fire and Police Employees' Retirement System
City of Baltimore, Maryland
AVERAGE MONTHLY SERVICE RETIREMENT BENEFIT PAYMENTS

Retirement Effective Dates From July 1, 2000 to June 30, 2005	Years of Credited Service				
	<u>10-15</u>	<u>16-20</u>	<u>21-25</u>	<u>26-30</u>	<u>31+</u>
Period 7/1/00 to 6/30/01					
Average Monthly Benefit			\$ 2,006	\$ 2,875	\$ 3,512
Average-Average Final Compensation			45,043	48,505	51,212
Number of Active Retirees			33	39	33
Period 7/1/01 to 6/30/02					
Average Monthly Benefit	\$ 1,379	\$ 1,905	2,370	3,356	3,987
Average-Average Final Compensation	43,978	46,817	48,964	55,790	60,767
Number of Active Retirees		2	44	29	18
Period 7/1/02 to 6/30/03					
Average Monthly Benefit		2,020	2,549	3,690	4,020
Average-Average Final Compensation		51,415	55,580	61,709	58,133
Number of Active Retirees			38	48	41
Period 7/1/03 to 6/30/04					
Average Monthly Benefit		2,300	2,508	3,744	4,253
Average-Average Final Compensation		55,083	57,040	61,637	61,497
Number of Active Retirees		3	59	50	80
Period 7/1/04 to 6/30/05					
Average Monthly Benefit	1,293	2,301	2,808	3,655	4,409
Average-Average Final Compensation	54,254	59,831	60,237	61,690	64,038
Number of Active Retirees		3	82	31	37
Period 7/1/00 to 6/30/05					
Average Monthly Benefit	1,336	1,423	1,950	2,547	2,483
Average-Average Final Compensation	49,116	54,421	54,913	58,203	59,600
Number of Active Retirees	2	9	256	197	209

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